



大同機械企業有限公司

**COSMOS MACHINERY ENTERPRISES LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 118)**

## **TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

This terms of reference established on 27th June, 2005 and amended on 29th March, 2012, the latest revision adopted by the Board of the Company on 29th December, 2015.

### **INTRODUCTION**

The audit committee's principal duties include, amongst others:

1. reviewing the Company's financial information, which includes the financial statements, directors' report, chairman's statement and management discussion and analysis in the annual and interim reports and providing advice and comments thereon to the Company's board of directors;
2. reviewing and supervising the Company's financial and management reporting, internal control systems and risk management, ensuring the Board has conducted annual review on the adequacy of resources, qualifications and experience of staff for the Company's accounting, internal audit and financial reporting function, and training programmes and budget; and
3. reviewing the adequacy and effectiveness of the Group's policies and procedures regarding risk management and internal control system.

The Company must ensure that full minutes are kept of all meetings of the audit committee.

The executive directors of the Company must ensure that members of the audit committee are provided with full and unlimited access to all books and accounts of the Company and any employees, consultants and advisers they may, from time to time, wish to consult.

## TERMS OF REFERENCE

### Constitution

1. An audit committee (the “**Committee**”) is established pursuant to a resolution passed by the board of directors of the Company (the “**Board**”).

### Membership

2. Members of the Committee shall be appointed by the Board from amongst the non-executive directors of the Company only and shall consist of not less than three members and that a majority of the Committee must be independent non-executive directors of the Company (at least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Listing Rules.). A quorum shall be two members or such number as may be determined by the chairman of the Committee (the “**Chairman**”) from time to time.
3. The Chairman shall be an independent non-executive director of the Company appointed by the Board.
4. The secretary of the Committee (the “**Secretary**”) shall be appointed by the Board. The company secretary of the Company will be appointed as the Secretary of the Committee.
5. The appointment of the members and secretary of the Committee may be revoked, or additional members may be appointed to the Committee by separate resolutions passed by the Board and the Committee.

### Attendance at Meetings

6. As necessary or desirable, the Chairman may request that members of management, the head of internal audit and representatives of the external auditors be present at meetings of the Committee. Other Board members shall also have the right of attendance. However, as considered necessary and requested by any one or more of the independence non-executive directors, the Committee shall meet with the external and internal auditors without the presence of the executive Board members.

## Meetings

7. (a) Meetings shall be held twice a year. Additional meeting should be held as the work of the Committee demands. The Committee must meet, twice a year, with the external auditors. The external auditors may request the Chairman of the Committee to convene a meeting if they consider that one is necessary.
- (b) The quorum necessary for the transaction of business of Audit Committee shall be two members of the Audit Committee, one of whom must be an independent non-executive director.
- (c) Meeting can be attended in person or via electronic including telephone or video conference. The members of the Audit Committee can attend the meeting via telephone or any similar communication device (all persons attending such meeting should be able to hear from such member via such communication device).
- (d) Resolution of the Audit Committee should be passed by more than half of its members.
- (e) A resolution passed and signed by all members of the Audit Committee is valid, and the validity is the same as any resolution passed in the meeting held.
- (f) Full minutes of Audit Committee meeting should be kept by a duly appointed secretary of the Audit Committee. Draft and final versions of minutes of the meeting should be sent to all Audit Committee members for their comments and records, within a reasonable time after the meeting.

## Notice of Meetings

8. Notice of meetings shall be given to all members of the Committee two working days before the meeting.

## Authority

9. The Committee is authorised by the Board:
  - (a) to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee;
  - (b) 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;

- (c) 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 Listing Rules and other rules and regulations from time to time laid down by the Board or a committee thereof);
- (d) to investigate all suspected fraudulent acts involving the Group and request management to make investigation and submit reports;
- (e) to review the adequacy and effectiveness of the Group's policies and procedures regarding risk management and internal control system;
- (f) to make recommendations to the Board for the improvement of the Group's risk management and internal control systems; and
- (g) to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the auditors of the Group.

## Duties

10. The duties of the Committee shall adopt:

(a) **C.3 Code on Corporate Governance Practices**

**Principles**

Audit committee – The board should establish formal and transparent arrangement for:

- considering how it will apply the financial reporting, risk management and internal control principles; and
- maintaining an appropriate relationship with the Company's auditors.

The audit committee should have clear terms of reference.

(b) **Code Provisions**

- (1) Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft of the first and final versions of minutes should be sent to all members of the audit committee for their comment and records respectively. First version should be sent out to all members for comment within approximately 30 days and final version will be used for minutes recording purpose.

- (2) A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Company's audit committee for a period of 1 year (a) commencing on the date of ceasing to be partner of the auditing firm; or (b) ceasing to have any financial interest in the auditing firm (whichever is later).
- (3) Written terms of reference of the audit committee should include the following duties:

#### Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendation to the board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors.
- (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 auditor the nature and scope of the external audit and reporting obligations before the external audit commences.
- (c) to develop and implement policy on the engagement of the external auditors to supply non-audit services.

#### Review of financial information of the Company

- (d) to monitor the integrity of the Company's financial statements and its annual report and accounts, half-year report and quarterly reports (if prepared), and to review the following significant financial reporting judgements contained in them.
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting.

- (e) with respect to (d) above:
  - (i) members of the audit committee must liaise with the board, senior management and the Company's qualified accountant and the audit committee must meet, twice a year, with the Company's external auditors; and
  - (ii) to consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to matters raised by the Company's qualified accountant, compliance officer or external auditors.

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

- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective system. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (h) 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;
- (i) 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 issuer, and to review and monitor its effectiveness of the internal audit function;
- (j) to review the group's financial and accounting policies and practices;
- (k) 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;
- (l) to ensure that the board will provide a timely response to the Company raised in the external auditor's management letter;

- (m) to report to the board on the matters in this code provision; and
  - (n) to consider other topics, as defined by the board.
- (4) The audit committee should make available its terms of reference planning its role and the authority delegated to it by the board (for example, by including it on the Company's website or making them available on request).
  - (5) Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Corporate Governance Report should include a statement from the audit committee explaining its recommendation and the reason(s) why the board has taken a different view.
  - (6) The audit committee should be provided with sufficient resources to discharge its duties.
  - (7) The audit committee should ensure that the Company has appropriate arrangement to let employees can use, in confidence to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that the proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

### Reporting Procedures

11. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.