

**SINOMAX GROUP LIMITED**  
**盛諾集團有限公司**

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**Terms of Reference of**  
**the Audit Committee of the Board of Directors**

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## **1 Constitution**

The Audit Committee (“Committee”) is established by the board of directors (“Board”) of Sinomax Group Limited (“Company”), in accordance with paragraph C.3 of Appendix 14 “Corporate Governance Code” to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), to assist it in overseeing and reviewing:

- (a) the effectiveness of the Company’s internal control and risk management system and the Company’s compliance of its obligations (including external financial reporting obligations) under the Listing Rules and applicable laws and regulations as amended from time to time;
- (b) the integrity of the Company’s financial statements;
- (c) the selection, independence, qualifications and remuneration of the Company’s external auditor; and
- (d) the effectiveness of internal audit function and the performance of external auditor.

## **2 Membership**

- 2.1 Members of the Committee shall be appointed by the Board from the directors of the Company and the Committee shall consist of at least three members. All of them shall be non-executive directors and one of whom must have the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. The majority of members of the Committee shall be independent non-executive directors. The quorum for a Committee meeting shall be at least two members.
- 2.2 The chairman of the Committee shall be an independent non-executive director appointed by the Board.
- 2.3 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Committee for a period of one year commencing on the dates of his or her ceasing:
  - (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm, whichever is later.
- 2.4 The company secretary of the Company shall serve as the administrator of the Committee and is responsible for its daily administration and meeting organisation. The audit department of the Company shall serve as the executive division of the Committee.

## **3 Secretary of the Committee**

The secretary of the Committee shall be the company secretary of the Company or other individuals appointed by the Committee from time to time.

## **4 Meeting**

- 4.1 Qualified accountants of the Company and representatives from external auditors shall be entitled to attend the meeting of the Committee. The Committee shall meet at least once a year with the Company's directors, senior management and external auditors. However, the Committee shall meet with the external auditors at least twice a year without the presence of executive directors.
- 4.2 The Committee shall convene meetings at least twice a year. The external auditors may request a meeting if they consider necessary.
- 4.3 Any provision in the Company's Articles of Association applicable to the convening and proceedings of Board meeting shall be deemed applicable to the Committee meeting with all necessary adjustments having been made thereto.
- 4.4 Before a Committee meeting, the members shall report their interests in the matters to be discussed at the meeting. If any matters to be discussed involve conflicts of interests with a member or any of his/her associates (see the Listing Rules for definition), the member shall neither attend the meeting nor to vote thereat.

## **5 Authority**

- 5.1 The Committee has been authorised by the Board to conduct investigation within the scope of these Terms of Reference. It is also authorised to seek any information it requires from any and all employees of the Company or its subsidiaries, and to require them to attend the Committee meeting, provide information and answer questions raised by the Committee.
- 5.2 The Committee is authorised to obtain external legal advices or other independent professional opinions and could involve external professionals with related experience, skills and expertise in Committee works if it considers necessary.
- 5.3 The company secretary of the Company is authorised by the Board to seek any information required for the Committee members to perform their duties on their behalf.
- 5.4 The Committee shall be provided with sufficient resources to perform its duties.

## **6 Duties**

The duties of the Committee are as follows:

- 6.1 Relationships with the Company's Auditors
  - (a) To act as the key representative body for overseeing the Company's relationship with the external auditors. It is responsible for making recommendations on the appointment, re-appointment and dismissal of the external auditors, for approving the remuneration and the terms of engagement of external auditors, and for handling issues relating to their resignation or dismissal;

*Note:* According to Rule 13.51(4) of the Listing Rules, an announcement must be published for any change of the auditor, and any issues that must be noted by the shareholders shall also be specified in the announcement.

- (b) To review and monitor the external auditors' independence and objectivity and the effectiveness of their auditing procedures, and to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences; and
- (c) To develop and implement policy on engaging external auditors to supply non-auditing service. For this purpose, external auditors 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 knowing all relevant information would reasonably conclude to be part of the audit firm locally or internationally. The Committee shall report to the Board identifying and making recommendations on any matters where action or improvement is needed.

## 6.2 Review of the Company's Financial Information

- (a) To monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing the Company's annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports before submission to the Board, the Committee shall focus particularly on:
  - (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 reservation;
  - (v) compliance with accounting principle; and
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (b) In regard to (a) above:
  - (i) members of the Committee shall liaise with the Board, senior management as well as qualified accountants appointed by the Company. The Committee shall meet at least twice a year with the Company's auditors; and
  - (ii) the Committee shall 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 certified accountant, accounting and financial reporting personnel, compliance officer or auditors.

### 6.3 Oversight of the Company's Financial Reporting System and Internal Control Procedures and Audit Process

- (a) To review the Company's financial control, internal control and risk management systems, including providing guidance on creating the reporting and auditing system for financial report, monitoring the admittance, investigation and reporting of concerns regarding financial report raised by employees, as well as monitoring the handling of these concerns;
- (b) To discuss the internal control system with the management to ensure that the management has performed its duties to have an effective internal control system. The discussion shall include the adequacy of resources, qualifications and experience of staff, training programs and budget of the Company's accounting and financial reporting functions;
- (c) To consider major findings of investigation on internal control issues as delegated by the Board or on its own initiative and the management's response to these findings;
- (d) Where an internal audit function exists, to ensure coordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing, and to review and monitor its effectiveness;
- (e) To review the accounting policies and practices in the Group;
- (f) To review the management letter issued by external auditors to the management and any material queries upon accounting records, financial accounts or control systems from auditors as well as the 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 set out in these Terms of Reference; and
- (i) To consider other matters raised by the Board from time to time.

6.4 The scope of authority and responsibility of the Committee shall be made public, to explain its roles and the authorities conferred by the Board.

## 7 Measures Proposed

7.1 The above requirements can be met by implementing the following measures, which could be adopted by the Committee when necessary or applicable:

- (a) the Committee may consider creating the following procedures to review or inspect the independence of the external auditors;
  - (i) to review all relationships between the Company and the auditors (including whether the auditors are engaged for providing non-auditing services);

- (ii) to request for information from the external auditors to review the policy and procedure it adopts to maintain their independence and to monitor the implementation of relevant rules, including the current rules on change of audit partners and employees; and
  - (iii) to meet at least once a year with the auditors in the absence of the Company management to discuss matters relating to its audit fees, any issues arising from the audit of financial statements and any issues the auditors may wish to raise.
- (b) the Committee may consider formulating a policy on engaging employees or former employees of the audit institution together with the Board and monitoring the policy implementation. In addition, the Committee shall determine whether or not the capability of judgment or independence of the auditors is, or seems to be impaired;
- (c) the Committee shall ensure that the independence and objectivity of the external auditors for providing non-auditing service will not be impaired. The following factors could be considered by the Committee when assessing the independence and objectivity of the auditors providing non-auditing service:
  - (i) whether or not the capability and experience of the auditors is sufficient and appropriate for providing non-auditing service;
  - (ii) whether or not prevention measures have been taken to ensure that the independence and objectivity of audit conducted by the external auditors will not be affected by such services;
  - (iii) the nature and costs of the non-auditing service, and the cost level for both the individual services and for the service package provided by the auditors; and
  - (iv) the standard adopted to determine the auditing staff's remuneration; and
- (d) the Committee can establish relevant policies and systems on reporting according to the clause 6.3(a) above.

## **8 Reporting Procedure**

- 8.1 Minutes of the Committee meetings shall be kept by a duly appointed secretary of the meeting (who should normally be the company secretary of the Company), and such minutes shall be available for inspection at any reasonable time on reasonable notice by any director of the Company.
- 8.2 Minutes of meetings of the Committee shall record in sufficient details the matters considered by the Committee and decisions reached, including any concerns raised by directors, members or dissenting views expressed. Draft and final versions of the minutes shall be sent to all members of the Committee for their comments and records respectively within a reasonable time after a meeting.
- 8.3 Without prejudice to the generality of the duties of the Committee set out in these Terms, the Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless there are legal or regulatory restrictions on its ability to do so.

## **9 Annual General Meeting**

If required by the Board, the chairman of the Committee (or in his absence, another member of the Committee or his/her duly appointed representative) shall attend the Annual General Meeting of the Company and be prepared to respond to any shareholder's question on the Committee's activities and its responsibilities.

## **10 Powers of the Board**

10.1 The power to interpret these Terms of Reference shall vest in the Board.

10.2 These Terms of Reference shall enter into force after being reviewed and approved by the Board.

## **11 Others**

The English version and the Chinese version of these Terms of Reference shall be published on the Company's website and the Stock Exchange's website.