

AUDIT COMMITTEE

TERMS OF REFERENCE

1. Constitution

- 1.1 The audit committee (the “**Audit Committee**”) of Cosmos Machinery Enterprises Limited (the “**Company**”) was established pursuant to a resolution of the board (the “**Board**”) of directors (the “**Directors**”) of the Company passed on 30 October 1998.

2. Membership

- 2.1 All members of Audit Committee (the “**Members**”) shall be appointed by the Board and can be removed by the Board at its sole discretion.
- 2.2 Membership shall be confined to non-executive Directors, the majority of which must be independent non-executive Directors (“**INEDs**”) and at least one INED with appropriate professional qualifications or accounting or related financial management expertise.
- 2.3 The Board shall appoint the chairman of the Audit Committee who must be an INED.
- 2.4 A former partner of the Company's existing auditing firm, shall be prohibited from acting as a Member for a period of two years from the date of his/her ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.

3. Secretary

- 3.1 The company secretary of the Company shall be the secretary of the Audit Committee.
- 3.2 The secretary, or in his/her absence, the Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Audit Committee.

4. Proceedings of Meetings and Quorum

- 4.1 The Audit Committee shall meet at least twice a year. The Company’s external auditors may request that a meeting be held if they consider it necessary.
- 4.2 The quorum for decisions of the Audit Committee shall be any two Members, one of whom must be an INED.

- 4.3 The meetings and proceedings of the Audit Committee are governed by the provisions contained in the Company's Articles of Association for regulating the proceedings of the Directors. However, notice of any meetings has to be given at least 14 days prior to any such meeting being held, unless all Members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a Member shall be deemed waiver of the requisite length of notice by the Member. Notice of any adjourned meeting is not required if adjournment is for less than 14 days.
- 4.4 Meetings could be held in person, by telephone, by video conference or through other electronic means of communication. Members may participate in a meeting by means of said conference or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.
- 4.5 Minutes and resolutions in writing shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes should be circulated to all Members for their comment and records respectively, in both cases within a reasonable period of time after the meeting. Minutes and resolutions in writing shall be made available for inspection on reasonable notice by any Directors.
- 4.6 Resolutions of the Audit Committee shall be passed by a majority of votes. Only Members are entitled to vote at a meeting.
- 4.7 A resolution in writing signed by all the Members shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.

5. Attendance at Meetings

- 5.1 At least once a year, representatives of the Company's external auditors will meet the Audit Committee without any executive Directors being present, except by invitation of the Audit Committee.
- 5.2 At the invitation of the Audit Committee, the following persons may attend the meeting:
- (i) Head of Internal Audit or in his/her absence, a representative from Internal Audit, or a representative from a professional firm performing internal audit function;
 - (ii) Chief Executive Officer and Group Chief Financial Officer (or person occupying the same position);
 - (iii) other members of the Board; and
 - (iv) any management of the Company and/or its subsidiaries.

6. Annual General Meeting

- 6.1 The chairman of the Audit Committee or in his/her absence, another Member or failing this, his/her duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to the shareholders' questions on the Audit Committee's activities and their responsibilities.

7. Responsibilities, Powers and Functions

The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting system and internal control system. The Audit Committee shall have the following responsibilities, powers and discretion:

Relationship with the Company's external auditors

- 7.1 to be primarily responsible for making recommendations to the Board on the appointment, reappointment 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 external auditor;
- 7.2 to review and monitor the external auditor's independence and objectivity;
- 7.3 to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 7.4 to develop and implement 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;
- 7.5 to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of financial information of the Company

- 7.6 to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review any significant financial reporting judgements contained in them. In reviewing these reports (if applicable) before submission to the Board, the Audit Committee shall focus particularly on:
 - (a) any changes in accounting policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and
 - (f) compliance with the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and legal requirements in relation to financial reporting;

In regard to paragraph 7.6 above:

- (a) To liaise with the Board and senior management and to meet, at least twice a year, with the Company's external auditor; and
- (b) To 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 Company's staff responsible for the accounting and financial reporting function, compliance officer (or person occupying the same position), or external auditor;

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

- 7.8 to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Company's risk management and internal control systems;
- 7.9 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 function;
- 7.10 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;
- 7.11 to ensure co-ordination between the internal auditors (if any) or the professional firm performing internal audit function and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- 7.12 to review the financial and accounting policies and practices of the Company and its subsidiaries;
- 7.13 to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and the management's response;
- 7.14 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 7.15 to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

- 7.16 to act as the key representative body for overseeing the Company's relations with the external auditor;

Corporate Governance Issues

- 7.17 to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- 7.18 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- 7.19 to review the Company's compliance with the Corporate Governance Code (Appendix 14 to the Listing Rules) and disclosure in the Corporate Governance Report to be issued in accordance with Appendix 14 to the Listing Rules;

Report to the Board and other matters

- 7.20 to consider and carry out any other matters specifically referred to the Audit Committee by the Board; and
- 7.21 to report on all of the above matters to the Board.

8. Reporting

- 8.1 The Audit Committee shall report to the Board after each meeting by way of circulation of the minutes of meeting of the Audit Committee and disclose and publish in the annual report or other report as required subject to the Listing Rules amended from time to time.

9. Authority

- 9.1 The Audit Committee is authorised by the Board to inspect all accounts, books and records of the Company.
- 9.2 The Audit Committee shall have the right to require the Company's management to furnish information on any matter relating to the operational and financial position of the Company, its subsidiaries or affiliates, as may be required for the purposes of discharging its duties.
- 9.3 Any Member may, at the Company's expense, seek external independent professional advice or secure the attendance of outsiders with relevant experience and expertise if it considers this necessary in appropriate circumstances to perform his/her duties as a Member.
- 9.4 The Audit Committee shall be provided with sufficient resources to perform its duties, where necessary.

10. Disagreement as to external auditors

- 10.1 In the event the Board disagrees with the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors, the Audit Committee shall provide a statement explaining its recommendations to the Company for inclusion in the Corporate Governance Report to be issued by the Company in accordance with Appendix 14 to the Listing Rules.

11. Publication of the Terms of Reference

- 11.1 The terms of reference is posted on the respective websites of the Company and the Stock Exchange in order to explain its role and the authority delegated to it by the Board. A copy of the terms of reference will be made available to any person without charge upon request.

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