



**SMC ELECTRIC LIMITED**  
**蜆壳電業有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2381)**

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

(Adopted on 29 April 2020 by the Board)

### **1. Constitution**

The Audit Committee (the “**Committee**”) was established with its terms of reference pursuant to a resolution passed by the board of directors (the “**Board**”) of SMC Electric Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) at its meeting held on 29 April 2020. The powers, responsibilities and specific duties of the Committee are summarised as below.

### **2. Responsibility**

- (a) The Committee is to serve as a focal point for communication between other directors of the Board and external auditors of the Company with regards to their duties relating to financial and other reporting, internal controls, external audits and such other matters as the Board determines from time to time.
- (b) The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, internal controls of the Group, and adequacy of the external audits.

### **3. Membership**

- (a) The Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three (3) members, a majority of whom should be independent non-executive directors of the Company (“**INEDs**”). At least one (1) member of the Committee must be an INED with appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”, as amended from time to time).
- (b) The Board may at any time remove, suspend or replace any member of the Committee at its option by resolution whereupon the Committee should consist of the remaining or replaced members of the Committee.
- (c) The chairman of the Committee shall be an INED and a member of the Committee appointed by the Board.

- (d) The secretary of the Committee shall be appointed by the Chairman of the Committee. The secretary of the Committee (or his/her delegate) shall be the secretary of the meetings of the Committee.
- (e) A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Committee for a period of two (2) years from the date of the person ceasing:
  - (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm, whichever is later.

#### **4. Frequency of Meetings**

Meetings shall be held at least twice a year or at such frequency as required under the Listing Rules or other regulatory requirements applicable to the Company from time to time. The external auditor or any members of the Committee may request a meeting if they consider that one is necessary and upon the receipt of such a request, the secretary of the Committee shall convene such a meeting as soon as reasonably practicable and having regard to the convenience of all members with priority given to the INEDs.

The Chairman of the Committee may convene additional meetings at his/her discretion.

#### **5. Attendance at Meetings**

- (a) Unless otherwise stated herein, the meetings of the Committee are governed by the provisions contained in the Company's articles of association for regulating the meetings and proceedings of directors.
- (b) The quorum for a meeting of the Committee shall be two members, of whom at least one must be an INED.
- (c) Subject to sub-paragraph (d) below, the chairman of the Board and the financial controller of the Company may be invited to attend meetings of the Committee. A representative of the external auditors and internal control adviser shall be invited to attend the Committee meetings where appropriate. Other staff who have specific responsibility for an area under audit may also be invited to attend.
- (d) The Committee may hold separate private meeting(s) with the internal auditor and/or the external auditor, with no executive directors (the "**Directors**") or senior management present whenever they think fit and appropriate.

- (e) The secretary of the Committee must ensure that minutes for all meetings are kept in full.
- (f) Any members of the Committee or other attendees may participate in a meeting of the Committee by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting are capable of hearing each other.

## **6. Committee's Resolutions**

Without prejudice to any requirement under the Listing Rules for a Board or Committee meeting to be held or any requirement, a resolution in writing signed by all the members of the Committee shall be as valid and effectual in law as if it had been passed at a meeting of the Committee duly convened and held and may consist of several documents in like form each signed by one or more of the members of the Committee. Such resolution may be signed and circulated by fax or other electronic communications.

## **7. Authority**

- (a) The Committee is authorised by the Board to operate in accordance with its terms of reference. It is authorised to seek any information it requires from any employee or executive Director and all employees are directed to co-operate with any request made by the Committee.
- (b) The Committee shall report to the Board any suspected frauds or irregularities, failures of internal controls or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
- (c) The Committee is authorised by the Board that, under the Company's policy for Directors to seek independent professional advice, and at the reasonable expense of the Company, to obtain reasonable outside legal or other independent professional advice related expenses shall be borne by the Company.
- (d) Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Board will arrange for the Corporate Governance Report in the annual report of the Company to include an explanation of the Committee's view and the reasons why the Board has taken a different view.
- (e) The Committee should be provided with sufficient resources to perform its duties.

## 8. Responsibility and Duties

The overall role of the Committee shall be to assist the Board in its oversight of the completeness, accuracy and fairness of the financial statements of the Company, of the adequacy of risk management and internal control systems, of the independence of the external auditor and of the performance of the Company's internal audit and compliance function.

The duties of the Committee shall be:

### *Relationship with the Company's auditors*

- (a) to consider and make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) to consider the nature and scope of each year's audit, including the engagement letter and audit plan submitted by the external auditor, and to discuss the same and the reporting obligations with the auditor before the audit commences. The Committee's review will include obtaining an understanding from the external auditor of the factors considered by them in determining their audit scope and how this interacts with the activities of the internal audit and compliance function for the effectiveness of the audit process in accordance with applicable standards;
- (c) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (d) to review and monitor the external auditor's independence and objectivity. In this connection, the Committee shall:
  - (i) obtain from the external auditor annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including non-audit services and those for rotation of audit partners and staff;
  - (ii) develop and implement policy on engaging the external auditor to supply non-audit services and to report to the Board, identifying and making recommendations on any matters where action or improvement is needed. (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);

- (iii) conduct annual review on the nature of all non-audit services performed by the external auditor and the related fee levels, and to ensure that provision of such services does not impair the independence or objectivity of the external auditor; and
- (iv) review the policies on hiring employees or former employees of the external auditor and consider whether as a result of such any subsequent hiring, there has been or appears to be any impairment of the auditor's judgment or independence for the audit;

***Review of the Company's financial information***

- (e) 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 significant financial reporting judgments contained therein. In reviewing these reports before submission to the Board, the Committee should 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 qualifications;
  - (v) compliance with accounting standards;
  - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting; and
  - (vii) any material off-balance sheet arrangements and obligations;
- (f) regarding (e) above:
  - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's 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, the compliance officer or the external auditor;

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

- (g) 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;
- (h) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. 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;
- (i) 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;
- (j) to review and monitor the effectiveness of the internal audit function, including a review of the internal audit programme, to promote co-ordination between the internal and external auditors, and to ensure the internal audit function is adequately resourced and has appropriate standing within the Company;
- (k) to review the Group's financial and accounting policies and practices;
- (l) to discuss any problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary) and to assist in the resolution of any disagreements or difference between the external auditor and management;
- (m) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) to review the Company's policies and procedures the employees of the Company may use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control, auditing matters or other matters affecting the corporate image of the Company;
- (p) to ensure that proper arrangements are in place for the fair and independent investigation of the matters mentioned in (o) above and for appropriate follow-up action; and

- (q) to formulate whistle-blowing policies and systems so that the employees and other persons (e.g. customers and suppliers) who have connections with the Company can, in confidence, report to the Committee concerns about any impropriety relating to the Company.

***Others***

- (r) to report to the Board on the above matters;
- (s) to recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (t) to consider other topics, as defined by the Board;

***Corporate Governance Function***

- (u) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (v) to review and monitor the training and continuous professional development of directors and senior management;
- (w) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (x) develop, review and monitor the code of conduct and compliance manual, if any, applicable to employees and directors; and
- (y) to review the Company's compliance with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules and disclosure in the Corporate Governance Report in the Annual Report.

**9. Reporting Procedure**

- (a) The Committee shall report to the Board on a regular basis, and the Chairman shall report the findings and recommendations to the Board at the next meeting of the Board following each meeting of the Committee, unless there are any legal or regulatory restrictions limiting its ability to do so.
- (b) Full minutes of Committee meetings shall be kept by the secretary of the Committee. Draft and final versions of minutes of the meetings shall be sent to all Committee members for their comment and records within a reasonable time after the meeting.
- (c) Copies of the minutes of the meetings/written resolutions of the Committee shall be provided to the Board at its meetings.

- (d) Minutes of Committee meetings shall record in sufficient detail the matters considered by the Committee members and decisions reached, including any concerns raised by the Committee members and dissenting views expressed.

#### **10. Availability and Update of the Terms of Reference**

These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. Listing Rules) in Hong Kong. These terms of reference shall be made available to the public by including the information on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.smcelectric.com.hk](http://www.smcelectric.com.hk)).

*This terms of reference is prepared in both Chinese and English. In the event of any inconsistency between the English and Chinese versions, the English version shall prevail.*