

**C.P. LOTUS CORPORATION**  
**(the “Company”)**

**Terms of Reference**  
**of**  
**Audit Committee**  
**(the “Committee”)**

**CONSTITUTION**

- The Committee has been set up by the board of directors of the Company (the “Board”) on 31st March, 1999.
- Subject to the regulations contained in the Companies Law, Cap 22 of Cayman Islands, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Articles of Association of the Company, the procedures of the Committee shall be regulated by the provisions set out in these terms of reference.
- These terms of reference with the authority and duties of the Committee have been approved by the Board on 27th March, 2012 which supersedes previously adopted terms of reference dated 2nd July, 1999 and 19th July, 2005. The Board has the authority to review and amend the terms of reference from time to time.

**MEMBERSHIP**

- Members of the Committee shall be appointed by the Board. The Committee shall comprise non-executive directors only and shall consist of a minimum of three members, at least one of who is an independent non-executive director (“INED”) with appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The majority of the Committee members must be INEDs under the Listing Rules.
- The chairman of the Committee shall be appointed by the Board and the Audit Committee must be chaired by an INED.
- The company secretary or his/her nominee shall be the secretary of the Committee.
- A member who wishes to retire or resign from the Committee shall serve sufficient prior written notice to the Company. A member who ceases to be a member of the Board shall immediately and automatically cease to be a member of the Committee.

- 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 one year from the date of his ceasing:-
  - to be a partner of the firm; or
  - to have any financial interest in the firm,

whichever is later.

## **COMMITTEE MEETINGS**

- Unless otherwise stipulated herein, the meetings and proceedings of the Committee shall be governed by the provisions contained in the Articles of Association of the Company for regulating the meetings and proceedings of directors.
- The quorum for the meeting of the Committee shall be two members.
- The Committee meetings should be held at least twice a year. Additional meetings should be held as the work of the Committee demands. It is expected that the Committee meeting will normally involve the active participation of each member, either in person or through other electronic means of communication.
- Arrangements should be in place to ensure that all members are given an opportunity to include matters in the agenda for regular Committee meetings.
- The external auditors may request a meeting as they consider necessary.
- Senior staff of the accounting and financial reporting function and representative(s) of the external auditor may attend meetings of the Committee. Other members of the Board shall also have the right of attendance.
- The Committee shall ensure that sufficient opportunities exist for its members to meet separately with the external auditor, management of the Company, and to meet in private with only the Committee members present.
- Seven days' notice or such shorter notice as may be agreed by members will be given by the secretary specifying the place, date, time and agenda of the meeting.
- Members should have access to the advice and services of the secretary of the Committee with a view to ensuring that Committee procedures, and all applicable rules and regulations, are complied with.
- If a member has a conflict of interest in a matter to be considered by the Committee which the Committee has determined to be material, the matter should be dealt with by way of Committee meeting and the interested member shall not vote at the relevant meeting of the Committee.

- Minutes of Committee meetings should be kept by the secretary of the Committee and such minutes should be open for inspection at any reasonable time on reasonable notice by any member or director. Draft and final versions of minutes of the Committee meetings should be sent to all Committee members for their comment and records within a reasonable time after the meeting.

## **AUTHORITY**

- The Committee is authorised by the Board 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.
- The Committee is authorised by the Board to obtain external legal or other independent professional advice, at the Company's expense and to invite the attendance of external professionals with relevant experience and expertise if it considers necessary.
- The Committee should be provided with separate independent professional advice to member(s) to assist the relevant member(s) with sufficient resources to discharge his/their duties.
- The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control 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.

## **DUTIES**

- To communicate between other directors, the external auditors as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.
- To assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the group, and as to the adequacy of the external and internal audits.

The duties of the Committee should include the followings:-

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

- To be primarily responsible for making 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.

- To review and monitor 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.
- To develop and implement policy on engaging an external auditor to supply non-audit services and report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

### **Review of financial information of the Company**

- To monitor integrity of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports (if any), and to review significant financial reporting judgments contained therein.
- To review the Company's annual reports and accounts, interim reports and quarterly reports (if any) before submission to the Board for endorsement, the Committee should focus particularly on :-
  - Any changes in accounting policies and practices;
  - Major judgmental areas;
  - Significant adjustments resulting from audit;
  - Going concern assumptions and any qualifications;
  - Compliance with accounting standards; and
  - Compliance with the Listing Rules and legal requirements in relation to financial reporting.
- Members should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors.
- 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, compliance officer or auditors.
- The Committee should discuss problems and observations arising from the final audits, interim and quarterly audits (if any) and any matters the auditors may wish to discuss (in the absence of management where necessary).

### **Oversee the Company's financial reporting system and internal control procedures**

- To review the Group's financial and accounting policies and practices, financial controls, internal control and risk management systems.
- To discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control 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.

- To consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings.
- To ensure co-ordination between the internal and external auditors and the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness.
- 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.
- To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- 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.
- To act as the key representative body for overseeing the Company's relations with the external auditor.
- To report to the Board on the matters set out in Appendix 14 - Code on Corporate Governance Practices of the Listing Rules (as amended from time to time) adopted by the Company.
- The chairman of the Committee or in his/her absence, an alternative member or failing this, his/her duly appointed delegate, shall attend the annual general meetings/general meetings of the Company and be prepared to answer questions.
- To consider other topics, as defined by the Board.

## **REPORTING PROCEDURES**

- The secretary of the Committee shall circulate the minutes of Committee meetings, reports of the Committee and relevant information to the Board.
- The Committee should report back to the Board on their findings and recommendations or decisions made, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).