



China Motor Bus Co., Ltd.

(Incorporated in Hong Kong with limited liability)

(Stock code: 026)

TERMS OF REFERENCE OF AUDIT COMMITTEE

A. ATTENDANCE OF MEETINGS

- (a) A representative of the external auditors shall normally attend meetings unless advised otherwise by the Committee. Other Board members shall also have the right to receive notice of Audit Committee meetings and to attend if desired. However, at least once a year the Committee shall meet with the external auditors without executive Board members or management present.
- (b) The secretary of the Committee shall be appointed by the Board.

B. FREQUENCY OF MEETINGS

- (a) Meetings shall be held not less than twice a year.
- (b) The external auditors may request a meeting if they consider that one is necessary.

C. AUTHORITY

The Committee is authorised to consider all matters within the scope of its duties which are in respect of the areas of relationship with the external auditors, review of financial information and oversight of the financial reporting system, risk management and internal control systems. In connection therewith, the Committee may seek such information as it may require from any employee and, if it deems necessary, may obtain outside professional advice on relevant matters.

D. DUTIES

The principal duties of the Audit Committee include:

Relationship with the Company's auditors

- (a) 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 its resignation or dismissal; to act as the key representative body for overseeing the Company's relations with the external auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on engaging the 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. The audit committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's and the Group's financial information

- (d) to monitor integrity of the Company's and the Group's financial statements and annual report and accounts and half-year report, and to review significant financial reporting judgements contained in them. 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; and
 - (vi) compliance with the Exchange Listing Rules and legal requirements in relation to financial reporting;
- (e) Regarding (d) 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 auditors; 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 and the Group's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

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

- (f) to review the Company's and the Group's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Company's and the Group's risk management and internal control systems;
- (g) 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;

- (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 Company, and to review and monitor its effectiveness;
- (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 issues raised in the external auditor's management letter;
- (m) to review arrangements employees of the Company and the Group and those who deal with the Company and the Group can use, in confidence and anonymity, 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;
- (n) to report to the Board on the matters set out above; and
- (o) to consider other topics, as defined by the Board.

August 2022