

China High Precision Automation Group Limited  
(中國高精密自動化集團有限公司)  
(the “Company”)

**AUDIT COMMITTEE - TERMS OF REFERENCE**

**(Adopted by the Board of Directors on 28 February 2012)**

**AUTHORITY**

1. The Audit Committee shall have unrestricted access to other members of the board of directors (“Board”), senior management, the qualified accountant, internal controller and external auditors in execution of its duties and responsibilities. All relevant employees will be directed to co-operate with any request made by the Audit Committee.
2. The Audit Committee is authorised to obtain independent professional advice in accordance with the procedures to be adopted by the Company from time to time and to secure the attendance of any external professional with relevant experience and expertise if necessary. The Audit Committee should be provided with sufficient resources to perform its duties. The Audit Committee should make available its terms of reference explaining its role and the authority delegated to it by the Board by including them on the website of The Stock Exchange of Hong Kong Limited and the Company’s website.
3. The Audit Committee must comprise non-executive directors only. The Audit Committee must comprise a minimum of 3 members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required in Rule 3.10(2) of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The majority of the Audit Committee members must be independent non-executive directors of the Company. The Audit Committee must be chaired by an independent non-executive director.
4. A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of 1 year from the date of his ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.

**RESPONSIBILITIES**

5. The Audit Committee shall at least have the following responsibilities:-

**Relationship with the Company’s auditors**

- (a) to be primarily responsible for making recommendation 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;
- (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 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. 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 financial information**

- (d) to monitor the 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 in them. In reviewing these reports before submission to the Board, the Audit 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 Listing Rules and legal requirements in relation to financial reporting;

Regarding (d) above, (1) the members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and (2) the Audit 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 accountant, compliance officer or auditors;

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

- (e) to review the Company's financial controls, internal control and risk management systems;
  - (f) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. 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;
  - (g) 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;
  - (h) 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;
  - (i) to review the group's financial and accounting policies and practices;
  - (j) 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;
  - (k) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
  - (l) to report to the Board on any matters above;
  - (m) to consider other topics, as requested by the Board;
  - (n) 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; and
  - (o) to act as the key representative body for overseeing the Company's relations with the external auditor.
6. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

## **MEETINGS**

7. Meetings of the Audit Committee shall be held not less than twice a year. The Audit Committee shall meet, at least twice a year, with the Company's auditors. The external auditors may request a meeting if they consider that is necessary.
8. A quorum of the meeting shall be two members.
9. Resolutions of the Committee at any meeting shall be passed by a majority of votes of members if more than two members are present and by a unanimous vote if only two members are present.

## **AUDIT COMMITTEE'S RESOLUTIONS**

10. A resolution in writing signed by all the members of the Audit Committee shall be as valid and effective as if it had been passed at a meeting of the Audit Committee and may consist of several documents in like form each signed by one or more of the members of Audit Committee. Such resolution may be signed and circulated by facsimile or other forms of electronic communications. This provision is without prejudice to any requirement under the Listing Rules for a meeting of the Board or Audit Committee to be held.

## **REPORTING PROCEDURES**

11. (a) The Audit Committee shall report to the Board identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken. At the next meeting of the Board following a meeting of the Audit Committee, the chairman of the Audit Committee shall report their decisions and recommendations of the Audit Committee to the Board.
- (b) Full minutes of meetings of the Audit Committee shall be kept by a duly appointed secretary of the meeting (who shall normally be the company secretary). Draft and final versions of minutes of the meetings shall be sent to all committee members for their comment and records within 7 days after the meeting.
- (c) Copies of the minutes of meetings of the Audit Committee shall be provided to the Board at its meetings.

- (d) The Audit Committee shall make available at least one of its members to attend the Company's annual general meeting to answer shareholders' questions about audit issues.

#### **REVISION OF THE TERMS OF REFERENCE**

- 12. 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. the Listing Rules).