

PERFECT OPTRONICS LIMITED

圓美光電有限公司

(the “Company”)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

(the “Committee”)

Constitution

1. The board of directors of the Company (the “**Board**”) has resolved to establish the Committee. The constitution of the Committee shall comply with the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) from time to time.

Membership

2. The members of 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 members, at least one of whom shall be an independent non-executive director of the Company with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules.
3. A majority of the members of the Committee shall be independent non-executive directors of the Company.
4. The chairman of the Committee shall be appointed by the Board and shall be an independent non-executive director of the Company.
5. The term of membership shall be governed by the provisions of the articles of association of the Company (as amended from time to time).
6. Subject to paragraph 2 above, the appointment of the members of the Committee may be revoked and new members can be appointed in their stead by resolutions passed by the Board and by the Committee respectively.
7. No alternate member of any member of the Committee can be appointed.
8. 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 (i) to be a partner of the firm or (ii) to have any financial interest in the firm, whichever is later.

Attendance at meetings

9. The members of the Committee, the chief executive officer and the financial controller of the Company (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditor of the Company shall normally attend meetings of the Committee (“**Meetings**”). Other members of the Board may be invited to attend a particular Meeting in order to answer specific points or concerns of the Committee. Where an internal audit function exists, the head of internal audit should normally attend Meetings. At least once a year the Committee shall meet with the external and internal auditors (if any) in the absence of any executive directors of the Company.

10. Members of the Committee may attend Meetings either in person or through other electronic means of communication.
11. The company secretary of the Company or in his absence his representative shall be the secretary of the Committee.

Frequency and proceedings of meetings

12. Meetings shall be held at least four times a year. Additional Meetings should be held as and when the work of the Committee demands or when the Board demands.
13. The external auditor may request a Meeting with the Committee if they consider it necessary.
14. The quorum of a Meeting shall be any two members of the Committee, of whom at least one is an independent non-executive director of the Company.
15. Proceedings of Meetings shall be governed by the relevant provisions of the articles of association of the Company (as amended from time to time).

Authority

16. The Committee is granted the authority to investigate any activity within these terms of reference and is authorised by the Board to seek any information it requires from any employee and all employees are directed to cooperate with any request made by members of the Committee.
17. The Committee is authorised by the Board to obtain external legal or other independent professional advice if required by the Committee and to invite the attendance of outsiders with relevant experience and expertise if it considers necessary.
18. The Committee shall report to the Board on any suspected fraud and irregularities, failures of internal control or suspected breaches of laws, rules and regulations which come to its attention in relation to the matters set out in these terms of reference and which are of sufficient importance to warrant the attention of the Board.

Responsibility

19. The Committee is to serve as a focal point for communication between other directors, the external auditors and the internal auditors (where an internal audit function exists) of the Company as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other financial and accounting matters as the Board determines from time to time.
20. The Committee is to assist the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company and its subsidiaries (the “**Group**”), overseeing the audit process, reviewing the completeness, accuracy, clarity and fairness of the Company’s financial statements, considering the scope, approach and nature of both internal and external audit reviews and reviewing and monitoring connected transactions and performing other duties and responsibilities as may be assigned by the Board from time to time.

Duties, powers and functions

21. The Committee is to:

- (a) 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;
- (b) 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 external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) 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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, 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 GEM Listing Rules and legal requirements in relation to financial reporting;
- (e) regarding (d) above:-
 - (1) liaise with the Board and senior management of the Company and the Committee must meet, at least twice a year, with the Company's auditors; and
 - (2) consider any significant or unusual items that are, or may need to be, reflected in such 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 auditors;
- (f) review the Company's financial controls, internal control and risk management systems;

- (g) 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;
- (h) review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (i) 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;
- (j) 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;
- (k) review the Group's financial and accounting policies and practices;
- (l) 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;
- (m) ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) be familiar, through the individual efforts of its members, with the financial reporting principles and practices applied by the Group in preparing its financial statements;
- (o) review annually the external auditor's fees which have been negotiated with management of the Company;
- (p) review and consider the budget or revised budget of the Company prepared by the Board;
- (q) evaluate the level of cooperation provided by the Company to the external auditor, including their access to all requested records, data and information; obtain comments from management of the Company regarding the responsiveness of the external auditor to the Group's needs; make enquiries with the external auditor as to whether there has been any disagreements with management of the Company which if not satisfactorily resolved would result in the issue of a qualified report on the Group's financial statements;
- (r) when the external auditor renders a substantial volume of non-audit services to the Group, to keep the nature and extent of such services under review, and ensure that the provision by the external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee may consider the following:-
 - (i) whether the skills and experience of the external auditor make it a suitable supplier of non-audit services;

- (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services;
 - (iii) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the external auditor; and
 - (iv) criteria for compensation of the individuals performing the audit;
- (s) recommend to the Board any appropriate extensions to, or changes in, the duties of the Committee;
 - (t) meet with the external auditor of the Company, at least once a year, in the absence of the management of the Company, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditor may wish to raise;
 - (u) 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 Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
 - (v) act as the key representative body for overseeing the Company's relations with the external auditor;
 - (w) report to the Board on the matters set out in this terms of reference and in the code provisions contained in Appendix 15 of the GEM Listing Rules (as amended from time to time);
 - (x) consider other topics, as defined or assigned by the Board from time to time;
 - (y) establish suitable policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company; and
 - (z) make available these terms of reference explaining the role of the Committee and the authority delegated to it by the Board by including them on the websites of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the Company.

22. The Committee should be provided with sufficient resources to perform its duties.

Reporting Procedures

- 23. The Committee should report to the Board on a regular basis on its decisions or recommendations and on the matters set out in these terms of reference, unless there are legal or regulatory restrictions on its ability to do so.
- 24. Full minutes of the Meetings or, as the case may be, written resolutions, of the Committee shall be kept by the secretary of the Committee, who shall prepare and circulate to all members of the Committee the draft and final version of such minutes or written resolutions, for their comments and records respectively within a reasonable time after the Meeting.

Others

25. The chairman of the Committee or in his absence, another member of the Committee or failing this, his duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to questions at the annual general meeting on the Committee's activities and their responsibilities.