



BOE VARITRONIX LIMITED
(the “Company”)

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

1. Background

- 1.1 The Committee was established on 17 September 1998 and terms of reference were adopted at a board meeting held on that day. Amongst the committee’s principal duties shall be the review and supervision of the Company’s financial reporting, risk management and internal controls principles.
- 1.2 The Company wishes to revise the terms of reference of the Committee in line with the changes in environment and requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), to establish formal and transparent arrangements to consider how it will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the Company’s auditors.
- 1.3 For the Committee, a report on how it met its responsibilities in its review of the quarterly (if relevant), half-yearly and annual results, and unless expressly addressed by a separate risk committee, or the Board itself, its review of the risk management and internal control systems, the effectiveness of the Company’s internal audit function, and its other duties under the Corporate Governance Code in Appendix 14 of the Listing Rules (the “Code”).

2. Membership

- 2.1 The members of the Committee shall comprise non-executive directors only, of which a majority of the Committee must be independent non-executive directors of the Company. The 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 under Rule 3.10(2) of the Listing Rules.

- 2.2 The Committee must be chaired by an independent non-executive director.
- 2.3 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 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.
- 2.4 The company secretary of the Company shall be the secretary of the Committee. In the absence of the company secretary in any meeting of the Committee, a member of the Committee shall act as the secretary of the meeting of the Committee.

3. Proceedings

- 3.1 The quorum necessary for the meeting of the Committee shall be 2.
- 3.2 The chief financial officer, the financial controller and a representative of the auditors shall normally attend meetings of the Committee. Other Board members shall also have the right of attendance. The Committee meets with the auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.
- 3.3 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. The auditors or any member of the Committee may request a meeting with or without the presence of executive directors if they consider that one is necessary.
- 3.4 Proceedings of meetings of the Committee shall be governed by the provisions contained in the Bye-laws of the Company.

4. Duties

The duties of the Committee shall include the following:

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;
- (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 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 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 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 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 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 staff responsible for the accounting and financial reporting function, compliance officer or auditors;

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

- (f) 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;
- (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 Company's and its subsidiaries' 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 report to the Board on the matters in the Code provision;
- (n) to consider other topics, as defined by the Board;
- (o) 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 Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor.

5. Authorities

- 5.1 The Committee is authorized by the Board, subject to prior discussion concerning the cost, to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.
- 5.2 Where the Board disagrees with the 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 Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
- 5.3 The Committee should be provided with sufficient resources to perform its duties.

6. Reporting procedures

- 6.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting (who should normally be the company secretary). Draft and final versions of minutes of the meetings should be sent to all committee members for their comment and records, within a reasonable time after the meeting.

Where any discrepancy arises between the Chinese translation and the original English version, the English version shall prevail.

Adopted and effective on 17 September 1998,
1st Amendment on 26 March 2012,
2nd Amendment on 1 January 2016,
3rd Amendment on 1 January 2019.