



**DAISHO MICROLINE HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 0567)**

**Terms of Reference of the Audit Committee**

**(Adopted on 30 December 2022)**

## Daisho Microline Holdings Limited

### Terms of Reference of the Audit Committee (adopted on 30 December 2022)

#### 1. Constitution

1.1 The board (the “**Board**”) of directors (the “**Director(s)**”) of Daisho Microline Holdings Limited had resolved on 1 April 1999 to establish a committee known as the Audit Committee (the “**Committee**”) in order to provide the Board with an independent review of the effectiveness of the financial reporting process and internal control system of the Company and its subsidiaries (collectively, the “**Group**”). The terms of reference of the Committee have been updated and amended on 30 December 2022 pursuant to the resolutions of the Board in compliance with the Corporate Governance Code under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”)(the “**Stock Exchange**”).

#### 2. Membership

2.1 The Committee members shall be appointed by the Board from amongst the non-executive Directors and shall consist of not less than three members. The majority of the Committee members must be independent non-executive Directors.

2.2 The Chairman of the Committee shall be an independent non-executive Director as appointed by the Board.

2.3 The terms of office of the Committee members shall be determined by the Board.

2.4 The Company Secretary of the Company, or any person duly appointed by the Committee, shall act as the secretary of the Committee.

2.5 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 his/her ceasing:

(a) to be a partner of the firm; or

(b) to have any financial interest in the firm,

whichever is later.

### **3. Attendance at Meetings**

- 3.1 The Financial Controller and other relevant financial management person(s) of the Company shall normally attend meetings of the Committee. Other Board members and representative(s) of the external auditors shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditors without executive Board members' present.
- 3.2 The quorum of a meeting of the Committee shall be any two Committee members.

### **4. Frequency and Proceedings of Meetings**

- 4.1 The Committee shall meet at least two times a year. Any Committee member or the secretary of the Committee may convene Committee meetings if necessary.
- 4.2 Notice of meetings has to be given at least 14 days prior to any such meeting being held, unless all members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a member shall be deemed waiver of the requisite length of notice by the member. Notice of any adjourned meetings is not required if adjournment is for less than 14 days.
- 4.3 Meetings may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously.
- 4.4 Resolutions of the Committee at any meeting shall be passed by a majority of votes of the members present.
- 4.5 A resolution in writing signed by all the members shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

### **5. Minutes**

- 5.1 Full minutes of the Committee meeting should be kept by the secretary of the Committee. Draft and final version of minutes of the Committee meeting should be sent to all members of the Committee for their comment and records within a reasonable time after the meeting.

## **6. Authority**

- 6.1 The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 6.2 The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if considered necessary.

## **7. Terms of Reference**

The specific duties of the Committee shall be:

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

- 7.1 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;
- 7.2 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;
- 7.3 to develop and implement policy on 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;
- 7.4 to act as the key representative body for overseeing the Company's relations with the external auditors;

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

7.5 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 judgments 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;

7.6 Regarding sub-paragraph 7.5 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;

### ***Review of corporate governance***

7.7 to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

7.8 to review and monitor the training and continuous professional development of directors and senior management;

7.9 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

7.10 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

7.11 to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report of the Company annually;

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

7.12 to review the Company's financial controls, the Company's risk management and internal control systems;

7.13 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;

7.14 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;

7.15 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 issuer, and to review and monitor its effectiveness;

7.16 to review the Group's financial and accounting policies and practices;

7.17 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;

7.18 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

7.19 to review arrangements by which employees of the Group 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;

7.20 to report to the Board on the matters in this Terms of Reference and the code provisions of the Corporate Governance Code; and

7.21 to consider other topics, as defined by the Board.

## **8. Annual General Meeting**

8.1 The Chairman of the Committee or another member shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the activities of the Committee and their responsibilities.

## **9. Reporting Responsibilities**

9.1 The Committee shall report to the Board as and when appropriate.

## **10. Publication of the Terms of Reference**

10.1 The 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 websites of the Company and the Stock Exchange.

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