



CQME

Chongqing Machinery & Electric Co., Ltd.*

重慶機電股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02722)

Terms of Reference of the Audit Committee of the Board

Article 1 Definitions

For the purpose of these terms of reference (the “**Terms of Reference**”):

“ Board ”	means	the board of Directors of the Company.
“ Company ” or “ the Company ”	means	Chongqing Machinery & Electric Co., Ltd.*
“ Secretary of the Board ”	means	the secretary to the Board of the Company.
“ Director(s) ”	means	members of the Board.
“ Group ”	means	the Company and its subsidiaries and associated companies at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its current subsidiaries and associated companies, the current subsidiaries and associated companies of the Company or the businesses operated by its current subsidiaries and associated companies or (as the case may be) its predecessor.
“ Listing Rules ” or “ Rules ”	means	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time.
“ Articles of Association ”	means	the articles of association of Chongqing Machinery & Electric Co., Ltd.*, as amended from time to time.
“ Audit Committee ” or “ Committee ”	means	the audit committee established by the Board according to the resolution which was approved under the Terms of Reference.
“ Shareholder(s) ”	means	the person(s) or corporation(s) who holds shares of the Company.

Article 2 Constitution

The Board hereby resolves to establish a committee of the Board to be known as the Audit Committee.

Article 3 Composition and Membership of the Committee

The Committee shall be composed of three or more non-executive Directors, the majority of whom shall be independent non-executive Directors (hereinafter referred to as “INEDs”). The Board of the Company may adjust the size of the Committee according to the needs of the Company, provided that such adjustment is in compliance with relevant regulatory requirements. The Audit Committee shall have one chairman elected from the committee members who are INEDs, to take charge of its work. The Committee shall have one chairman, who shall be an INED appointed by the Board and responsible for presiding over the work of the Committee.

At least one of the members must be an INED with appropriate accounting or related financial management expertise as required under the Listing Rules and

- (1) have no significant connected relationship with the Company;
- (2) fulfil the requirement of “independency” regarding to the members of the Committee as stipulated by relevant regulatory rules; and
- (3) A former partner of the Company’s external independent auditor (hereinafter referred to as “Auditor”) shall not be engaged as a member of the Committee within one year after the date of his ceasing to be a partner of the Auditor or to share any financial interest of the Auditor, whichever is the later.

Article 4 Term of Office of the Committee

The term of office of the Committee shall be the same as that of the Board, and its members may be eligible for re-election upon the expiry of their term of office. Any member who, during his term of office, ceases to be a non-executive Director of the Company shall automatically lose his membership on the Committee and the Board shall make up for the number of members in accordance with relevant requirements of the Company.

Any change of the Committee members shall be, if involving change of directors of the Company simultaneously, subject to the approval of a shareholders’ meeting in accordance with the relevant procedure for change of directors stipulated in the Articles of Association as well as announcements as required by regulatory requirements.

Article 5 Resignation of Members

- (1) Should any member resign during his term of office, such member shall submit to the Board a resignation letter, in which detailed explanations for resignation should be stated.
- (2) In the event that the number of the Committee is less than the minimum quorum required due to the resignation of member(s), such resignation shall not take effect until the replacement member(s) elected by the Company take office.
- (3) For any member who automatically loses his membership due to his resignation as a non-executive Director, there is no need to apply the resignation procedure for members of the Committee. Such member shall automatically lose his membership on the date when he officially resigns from his position as a non-executive Director in accordance with the procedure for resignation of non-executive Directors of the Company. In the event that such automatic loss of membership may result in the number of the Committee falling below the minimum quorum, the matter of formal invalidation of membership shall be dealt with in accordance with the provision (2) of this Article.

Article 6 Committee Meetings

- (1) The Committee should hold at least two regular meetings every year (before annual and interim results announcements, respectively).
- (2) An extraordinary meeting of the Committee may be convened when the Auditor of the Company deems it necessary or two-thirds of the members of the Committee propose to do so.

A Committee meeting may not be held unless more than half of the members are present. It may be held by telephone conferencing or video conferencing or other means.

Article 7 Committee Meetings by Way of Written Resolutions

The Committee may accept a written resolution in lieu of convening a meeting of the Committee and pass a resolution in writing without convening a meeting of the Committee. A written resolution shall be valid if the meeting materials have been delivered to all members and the number of members who have signed and agreed to it reaches the quorum required to make the resolution.

Article 8 Convening and Chairing of Meetings

The Committee meetings shall be convened by its chairman with assistance from the Secretary of the Board who may authorize the office of the Board to help deal with the convening, preparation and meeting affairs, etc.

Notice of a Committee meeting and related meeting agenda and documents should be delivered to every member at least three days in advance.

The Committee meeting shall be presided over by the chairman of the Committee.

Article 9 Resolutions of Meeting

Any resolution of a Committee meeting shall be subject to the approval of two-thirds or more of all members, with each member having one vote.

Voting at a Committee meeting may be taken by ballot or show of hands. Voting at a Committee meeting may be taken via telecommunications.

The resolutions of the meeting of the Committee shall be in writing and signed by the members attending the meeting respectively.

Article 10 Meeting Minutes

Minutes of meetings of the Committee shall be kept, and the minutes shall be complete and true. The office of the Board is responsible for the minutes of the Committee's meetings, and the first draft of the minutes of each meeting shall be provided to all members for review and finalization within one week after the end of the meeting. The original minutes shall be kept by the Secretary of the Board of the Company.

Article 11 Non-voting Attendance

When it deems necessary, the Committee may invite the Company's Management and other Directors of the Board to attend its Committee meetings. Such attendees have no voting rights.

Article 12 Supporting Offices of the Committee

The audit and compliance department is the standing professional support body of the Committee, it operates under the direct leadership of the Committee and reports independently to it. The office of the Board shall provide coordination and support for the routine operation of the Committee.

Article 13 Terms of Reference of the Committee

The primary duties of the Committee are to assist the Board in supervising the following:

1. Management of relationship with the Company's Auditor
 - (1) To be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the Company's Auditor, and to approve the remuneration and terms of engagement of the Auditor, and to take care of any issues concerning resignation or dismissal of that Auditor. Comments from the Management and internal audit body of the Company should be given due consideration when the Committee assesses the work of the Auditor.
 - (2) To review and monitor the Auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the Auditor the nature and scope of the audit and relevant reporting obligations before the audit commences.
 - (3) To develop and implement policies on the engagement of the Auditor to supply non-audit services, including but not limited to providing recommendations for business development, industry study and internal controls of the Company. For the purpose of such provision, the Auditor shall include any institution that is under common control, ownership or management with the audit firm or any institution that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should 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.
 - (4) To oversee the work of the Auditor and to hear and consider any written report required to be submitted by the Auditor according to law.
 - (5) To resolve the disagreement between the Management of the Company and the Auditor on the financial statements.
 - (6) To oversee other activities as required by regulatory requirements.

2. Review of the financial information of the Company

- (1) To monitor the integrity of the Company's financial statements, annual report and accounts, interim report and, if prepared for publication, quarterly reports, and to review the significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, interim report and, if prepared for publication, quarterly reports before submission to the Board, the Committee should focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas involved;
 - (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 other legal requirements in relation to financial reporting.
- (2) In regard to (1) above:
 - (i) members of the Committee shall liaise with the Board, Management of the Company and qualified accountants. The Committee shall meet, at least twice a year, with the Auditor of the Company; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and shall give due consideration to any matters that have been raised by the Company's financial controller, qualified accountants (if any), officer in charge of internal audit or the Auditor.

3. Oversight of the Company's financial reporting system and internal control procedures

- (1) To review the Company's financial control, internal control and risk management systems and to monitor the implementation thereof.
- (2) To discuss with the Management the internal control system and ensure that the Management has discharged its duty to have an effective internal control system in place, including considering the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

- (3) To consider and analyse any findings of major investigations of internal control matters and Management's response as delegated by the Board or on its own initiative.
- (4) To review the Company's financial and accounting policies and practices.
- (5) To review the Auditor's Letter of Audit Fact submitted to the Management, any material queries raised by the Auditor to the Management in respect of the accounting records, financial accounts or control systems and the management's response.
- (6) To ensure that the Board will provide a timely response to the issues raised in the Auditor's Letter of Audit Fact submitted to the Management.
- (7) To report to the Board on the matters set out in provisions hereof.
- (8) To consider other topics, as defined by the Board.
- (9) The Committee and the Board shall review (at least annually) the effectiveness of the Company's and its subsidiaries' risk management and internal control systems, including providing supporting information for the Board's conclusion that the risk management and internal control systems are effective and adequate and disclose details of the review findings.
- (10) To ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems for the purpose of dealing with identified risks, safeguarding the Company's assets, preventing and detecting fraud, misconduct and loss, ensure the accuracy of the Company's financial reports and achieving compliance with applicable laws and regulations. The Committee should oversee Management in the design, implementation and monitoring of the risk management and internal control systems on an ongoing basis. The Committee is also responsible for ensuring that the effectiveness of the Company's and its subsidiaries' risk management and internal control systems is reviewed at least annually.

The subjects of review include:

- (i) the main features of the risk management and internal control systems, including the process used to identify, evaluate and manage significant risks, and the procedures for the timely, accurate and complete disclosure of discloseable information, including inside information and any other information required to prevent a false market in the Company's securities;
- (ii) any significant changes in the Company's assessment of risks (including ESG risks) and the risk management and internal control systems;
- (iii) the responsibilities of internal departments (such as the internal audit function) for reviewing the effectiveness of the Company's risk management and internal control systems, the process used to conduct those reviews and their frequency;

- (iv) information supporting the Board's conclusion that the risk management and internal control systems are appropriate and effective, including any confirmations received (as applicable) from the Management, the Committee and any other internal departments (such as the internal audit function), the Company's Independent Auditor; and
- (v) scope of the review and details of review findings, including any significant control failings or weaknesses that were identified in the current reporting period, or that were previously reported but remain unresolved, and any remedial steps taken or proposed to address such control failings or weaknesses.

4. Supervision of the internal audit matters of the Company

- (1) To co-ordinate the work of the internal audit body and the Auditor within the internal audit function of the Company, and to ensure that the internal audit function is in full and effective operation and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.
- (2) To maintain timely and effective communications with the Management and internal audit body of the Company in regard to internal audit matters.

5. The Company shall not establish a supervisory committee, the audit committee shall exercise the following powers in accordance with law:

- (1) to examine the Company's financial situation;
- (2) to supervise Directors, the general manager and other senior management members in performing their duties to the Company and to propose dismissal of those who violate any laws, administrative regulations and the Articles of Association;
- (3) to demand rectification from a Director, the general manager and other senior management members when the acts of such persons are harmful to the Company's interest;
- (4) to propose the convening of an extraordinary shareholders' meeting and to convene and preside over the shareholders' meeting when the Board fails to perform such duties as specified under the Articles of Association;
- (5) to put forward proposals to the shareholders' meeting;
- (6) to take legal actions against Directors, general manager and other senior management members pursuant to provisions of Article 189 of the Company Law;
- (7) to supervise the Company's financial reporting system, internal control procedure and internal audit matters;
- (8) to exercise other powers specified in the Articles of Association.

6. Other terms of reference of the Committee

- (1) To set up the tip-offs mailbox and tip-offs phone line in the audit and compliance department of the Company to deal with complaints and tip-offs about possible improprieties in financial reporting, internal controls or other matters, and ensure that proper arrangements are established for the fair and independent investigation of and appropriate follow-up action of the Company.
- (2) To act as the key representative body for overseeing the Company's relation with the Auditor.
- (3) To check and review at least once a year the execution report on the Company's annual connected transactions and give review comments.
- (4) To review the Company's work plans on risk management and internal control, as well as the annual evaluation report on the effectiveness of the internal control systems and internal audit function, and provide recommendations to the Board to ensure the Company's internal control systems are robust, appropriate and effective.

Article 14 Rights of the Committee

1. To make inquiries with the general manager and the financial controller of the Company about the following issues:
 - (1) Whether there is any significant deficiency in the design or operation of internal control systems which may adversely affect the Company's ability to record, process, summarize, and report financial data.
 - (2) Any weakness in internal control systems.
 - (3) Any fraud acts, whether or not material, that involves the Management or other employees who have a significant role in the Company's internal controls.
 - (4) Any significant change in internal control systems.
 - (5) Other matters as required by regulatory policies, laws and regulations.

2. To engage professional advisers

For the purpose of carrying out its duties, the Committee is entitled to engage independent legal advisors, certified accountants or other professional advisers with regard to such issues as recognizing potential conflict of interests, assessing the Company's disclosure and other law and regulatory compliance matters and conducting independent investigation of financial statements and compliance with securities regulations, etc.

Article 15 Preparation of the Committee Report

The Audit Committee shall prepare and present its report to the Board, and disclose the same in the relevant report of the Company (if applicable) as required by regulatory requirements.

Article 16 Establishment of the Whistle-Blowing Mechanism

The Committee shall accept and deal with complaints or tip-offs regarding finance, internal controls and audit of the Company and shall treat as confidential the confidential or anonymous tip-offs and relevant materials about suspected financial or auditing irregularities of the Company.

Article 17 Obligations of the Committee Members

The obligations of Committee members shall, as required by regulatory requirements and provisions of the Terms of Reference, include but not limited to the following:

- (1) To faithfully perform their duties, reasonably safeguard the best interests of the Company and fairly protect the interests of all Shareholders.
- (2) To attend the Committee meetings in person and on time, or, when failing to attend, appoint another member to attend on his behalf by power of attorney which shall state the scope of authorization.
- (3) To carefully review and consider all documents and topics presented to members.
- (4) To maintain adequate and effective communications with the Management and internal audit body of the Company and the Auditor.
- (5) To ensure the time and energy devoted to the work of the Committee. The Committee members shall not take the same position in more than three (excluding the number) domestic or overseas listed companies, unless otherwise approved by the Board.

Article 18 Remuneration of the Committee Members

The remuneration of the Committee members shall be determined and approved by the Board. Payment may be made in the form of cash, shares or options. The members shall not receive, whether directly or indirectly, any consulting fees, advisory fees or other compensation from the Company other than the following:

- (1) Remuneration received as a Director (including any allowances and other benefits paid to all Directors) or as an employee representative.
- (2) Remuneration for a position in any committee of the Board of the Company.
- (3) Pension or other deferred compensation for the services that have been rendered as a Director previously, and remuneration expected to be paid in the future (provided that such compensation is not contingent upon the provision of any other services by such Director in the future).

Article 19 Funds of the Committee

The Committee shall have funds and other resources necessary for the performance of its duties, including:

- (1) Compensations payable to the Auditor for audit, review or attestation services.
- (2) All expenses for engagement of any external professional advisors.
- (3) All necessary or appropriate administrative expenses for the Committee to perform its duties.

Article 20 Failure to Reach a Consensus on Engagement of External Auditor

When the Board disagrees with the recommendations made by the Audit Committee in respect of selection or appointment of the external auditor or resignation or removal of the Auditor, the Audit Committee shall present a statement explaining such recommendations to the Company which shall incorporate such statement in its corporate governance report in accordance with the Listing Rules.

Article 21 Availability of Terms of Reference

The Terms of Reference shall be made available upon request and published on the website of the Company by the Audit Committee so as to expound its duties and powers authorized by the Board.

Article 22 Validity and Interpretation of the Terms of Reference

The Terms of Reference shall take effect upon the approval by a Board resolution of the Company and the Board shall be responsible for explanation thereof. Matters not covered shall be implemented in accordance with the relevant regulatory requirements and the Articles of Association.

Article 23 Amendment and Termination of the Terms of Reference

Any amendment hereto or the termination hereof is subject to the approval of the Board through resolutions.

(If there is any inconsistency or ambiguity between the English and Chinese versions of the Terms of Reference, the Chinese version shall prevail.)