



CAPITAL ESTATE LIMITED

冠中地產有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

(the “Company”)

AUDIT COMMITTEE – TERMS OF REFERENCE

Last revised on 25 June, 2019 in compliance with the Listing Rules and the Code on Corporate Governance Practices.

1. MEMBERSHIP

- 1.1 The Audit Committee (the “Committee”) shall be appointed by the board of Directors (the “Board”) from among the non-executive Directors of the Company and shall consist of a minimum of three members (the “Members”).
- 1.2 The majority of the Members shall be independent non-executive Directors and at least one appropriate professional qualifications or accounting or related financial management expertise.
- 1.3 The Chairman of the Committee shall be appointed by the Board and should be an independent non-executive Directors.
- 1.4 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Committee for a period of two years commencing on 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).

2. SECRETARY

- 2.1 Subject to 2.2 below, the company secretary of the Company shall be the secretary of the Committee.
- 2.2 The Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Committee.

3. MEETINGS PROCEEDINGS

- 3.1 The Committee shall meet at least twice a year. The external auditors may request a meeting if they consider necessary.
- 3.2 Notice of Committee meetings shall be given at least 2 days prior to the meeting unless all Members unanimously waive such notice.
- 3.3 The quorum of Committee meeting shall be any two Members.
- 3.4 Resolutions of the Committee at any meetings shall be passed by a majority of votes of the Members present.

- 3.5 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.
- 3.6 Full minutes of Committee meetings shall be kept by the secretary of the Committee and shall be open for Directors' inspection.

Attendance

- 3.7 The Committee may invite the Finance Director, the Head of Internal Audit (where an internal audit function exists), representative of the external auditors or other persons to its meetings as it deems necessary. Other Board members shall also have the right of attendance.
- 3.8 At least once a year, the Committee shall meet with the external and internal auditors without the presence of the executive Directors.

4 AUTHORITY

- 4.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 4.2 The Committee is authorised by the Board to obtain external legal or other independent professional advice at the Company's expense and to secure the attendance at meetings of external parties with relevant experience and expertise if it considers necessary.
- 4.3 The Committee shall be provided with sufficient resources to perform its duties.

5. DUTIES

The duties of the Committee shall be:

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 external auditor, and to handle 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 standard. 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 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;
- (e) In respect of paragraph (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 reports 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 procedures

- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) to discuss the risk management and 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) to consider major investigations 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 Group's 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 set out in the code provision C.3 in the Corporate Governance Code and Corporate Governance Report (Appendix 14 of the Listing Rules);
- (n) to consider other topics, as defined by the Board;

Other duties

- (o) to review arrangements which 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 actions; and
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor.

6. REPORTING PROCEDURES

- 6.1 The secretary of the Committee shall send the draft and final versions of minutes of the Committee to all members of the Committee for their comment and record within a reasonable time after the meeting. Thereafter, the secretary shall circulate the minutes of meeting and reports of the Committee to all members of the Board.

Note: The English version shall always prevail in case of any inconsistency between the English version and the Chinese translation.