

# DESON DEVELOPMENT INTERNATIONAL HOLDINGS LIMITED (THE “COMPANY”)

(Stock Code: 262)

## Terms of Reference for Audit Committee

### Constitution

The board (the “**Board**”) of directors (the “**Director(s)**”) of the Company has resolved to establish a Committee of the Board known as the Audit Committee (the “**Committee**”) at a meeting held on 27 September 2004.

### Functions and Objectives

The Committee is appointed by the Board with a view to assist the Board in overseeing and reviewing:

- (i) the effectiveness of the Company’s financial control system, internal control and risk management system;
- (ii) the balance, transparency and integrity of the Company’s financial statements;
- (iii) the application of financial reporting principles;
- (iv) the relationship with the external auditor, and its independence assessment; and
- (v) the adequacy of resources, qualifications and experience of the Company’s accounting staff, their training programs, and budget.

### Composition

1. The Committee must comprise of non-executive directors only. The Committee must also comprise at least three members, with the majority being independent non-executive directors.
2. At least one of the independent non-executive directors serving as a member of the Committee must possess appropriate accounting professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
3. The Committee must be chaired by an independent non-executive director.
4. Any former partner of the Company’s existing auditing firm should be prohibited from acting as a member of its Committee for a period of two years from the date of his ceasing
  - to be a partner of the firm; or
  - to have any financial interest in the firm (whichever is later).
5. Unless it is agreed otherwise, the company secretary of the Company should assume the role of secretary for the Committee.

## **Proceedings and Records of Meetings**

1. The meetings and proceedings of the Committee are governed by the provisions of the By-Laws of the Company for regulating the meetings and proceedings of the Committee so far as the same are applicable and are not superseded by the regulations imposed by the Board.
2. Two members shall form a quorum for a meeting.
3. The Committee may invite such other persons (e.g. the chief executive officer and external audit engagement partner) to its meetings as it deems necessary. Other Board members shall also have the right of attendance.
4. Meetings shall be held not less than 2 times a year. Special meetings may be convened as required. The secretary of the Committee will convene a meeting on receipt of a request by the external auditors.
5. The secretary of the Committee shall circulate the meeting agenda and supporting documentation to the Committee members a reasonable period in advance of each meeting.
6. Full minutes of the Committee should be kept by the secretary of the Committee and be available for inspection by any reasonable time on reasonable notice by any director of the Company.
7. The draft and final versions of the minutes of the meetings should be sent to all Committee members for their comment and records within a reasonable time after the meeting.
8. The chairman of the Committee or another member of the Committee shall attend the Board meeting and the annual general meeting at which the financial statements are approved.
9. The chairman of the Committee, or in the absence of the chairman of the Committee, another member of the Committee, or failing which his duly appointed alternate, shall attend the Company's annual general meetings and be prepared to respond to any shareholder's questions on the Committee's activities and its responsibilities.
10. The Committee will meet with the external auditors at least once a year without executive Board members present.
11. The Committee shall make available its terms of reference by inclusion on the website of The Stock Exchange of Hong Kong Limited and the Company's website for corporate communications.

## **Authority**

The Board authorises the Committee to:

1. Perform activities within the scope of this terms of reference;
2. Engage independent counsel and other independent professional advisers as it deems necessary to perform its duties; and
3. Obtain information required by Committee members in pursuit of their duties, and have access to members of management and other employees for such purpose.

## **Duties**

The authority of the Committee is derived from the Board, therefore the Committee is obliged report to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so. The duties of the Committee are as follows:

### **1. Financial control system, internal control system, risk management systems and corporate governance functions**

- 1.1 to review the Company's financial control systems, 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 and oversee management in the design, implementation and monitoring of the risk management and internal control systems;
- 1.2 to oversee the Company's risk management and internal control systems on an ongoing basis and ensure that a review of the effectiveness of the Company and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its corporate governance report. The review should cover all material controls, including financial, operational and compliance controls;
- 1.3 to review and discuss the risk management and internal control system annually with management to ensure that management has performed its duty to have effective systems and to ensure that the management to provide a confirmation to the Board on the effectiveness of these systems. This review and discussion should include the adequacy of resources, staff qualifications and experience, training programmes, continuous professional development of directors and senior management and budget of the Company's accounting, internal audit and financial reporting function;
- 1.4 to conduct annual reviews, in particular, to consider the following matters:
  - (i) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;

- (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
  - (iii) the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Company and the effectiveness of risk management;
  - (iv) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
  - (v) the effectiveness of the Company's processes for financial reporting and the Listing Rules compliance;
- 1.5 to consider major investigation finding on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 1.6 to develop and review the Company's policies and practices on corporate governance, make recommendations to the Board and report to the Board on the matters in the provisions in the Code of Corporate Governance (Appendix 14 of the Listing Rules);
- 1.7 to prepare, review and recommend to the Board for approval of the Company's corporate governance report to be included in the interim report and the annual reports and to ensure the corporate governance report must contain all the information pursuant to the mandatory disclosure requirements set out in paragraphs G to Q of Appendix 14 to the Listing Rules;
- 1.8 in preparing the corporate governance report as stated in paragraph 1.7 above, to a reasonable and appropriate extent, to decide whether such corporate governance report to be a summary of the corporate governance report contained in the annual report or to incorporate information by reference to its annual report. The references must be clear and unambiguous and the summary must not contain only a cross-reference without any discussion of the matter. The summary must contain, as a minimum, a narrative statement indicating overall compliance with and highlighting any deviation from the code provisions;
- 1.9 in preparing the corporate governance report as stated in paragraph 1.7 above, to review and consider whether to disclose information pursuant to recommended disclosures set out in paragraphs R to T of Appendix 14 to the Listing Rules in the corporate governance report;

- 1.10 in preparing the corporate governance report as stated in paragraph 1.7 above, to ensure that the Company discloses a narrative statement on how they have complied with the risk management and internal control code provisions during the reporting period. In particular, to disclose:
- (i) the process used to identify, evaluate and manage significant risks;
  - (ii) the main features of the risk management and internal control systems;
  - (iii) an acknowledgement by the Board that it is responsible for the risk management and internal control systems and reviewing their effectiveness and also an explanation that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss;
  - (iv) the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and
  - (v) the procedures and internal controls for the handling and dissemination of inside information;
- 1.11 to review the need for an internal audit function on an annual basis and disclose the reasons for the absence of such a function in the corporate governance report;
- 1.12 to review and monitor the Company and its subsidiaries' financial and accounting policies and practices and the Company's compliance with legal and regulatory requirements;
- 1.13 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;
- 1.14 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 1.15 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;
- 1.16 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;
- 1.17 to review from time to time these terms of reference and recommend to the Board any necessary changes; and
- 1.18 to consider matters outside these terms of reference when requested by the Board.

## **2. Review of Financial Information**

2.1 to monitor the integrity of the Company's financial statements, annual report and half year report, by ensuring that appropriate accounting principles, practices and reporting standards are followed, and to review significant financial reporting judgments contained in them, with particular focus on:

- any changes in accounting policies and practices;
- major judgmental areas;
- significant adjustments resulting from audit;
- the going concern assumptions and any qualifications;
- compliance with accounting standards; and
- compliance with the Listing Rules and relevant legal requirements in relation to financial reporting.

2.2 for the purposes of 2.1 above:

- Committee members should liaise with the Board and the Company's senior management (as named in the Company's annual report), and must meet with the external auditors at least twice a year; and
- 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 qualified accountant, compliance officer or external auditors.

## **3. Relationship with the External Auditors**

3.1 to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors;

3.2 to approve the remuneration and terms of engagement of the external auditors;

3.3 to review and monitor the external auditors' independence and objectivity, and the effectiveness of the audit process in accordance with applicable standards;

3.4 discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

- 3.5 to develop and implement policy on engaging an external auditor to supply non-audit services, if any, to ensure that provisions of such services would not impair the independency and objectivity of the external auditors; and
- 3.6 to act as the key representative body for overseeing the Company's relations with the external auditors.

*(The English version shall always prevail in case of any inconsistency between the English version and its Chinese translation.)*

*(Adopted by the Company pursuant to the Board's resolutions passed on 10 March 2009, 31 December 2015, 31 December 2018 and 30 December 2022)*