



COSCO Pacific Limited
中遠太平洋有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1199)

Terms of Reference of Audit Committee

Constitution

The board of directors (“the Board”) of COSCO Pacific Limited (“the Company”) established an audit committee (“the Committee”) pursuant to bye-law 120 of the Company’s Bye-laws in 1998.

Membership

1. The Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of whom should be independent. A quorum shall be two members.
2. The Chairman of the Committee shall be appointed by the Board and should be an independent director.

Attendance at meetings

1. The Financial Controller, the Head of Internal Audit and a representative from the external auditor shall normally attend meetings. However, at least once a year the Committee shall meet with external and internal auditors without executive Board members present.
2. The Company Secretary shall be the secretary of the Committee (“the Secretary”).

Frequency of meetings

Meetings shall be held not less than four times a year. The external auditor may request a meeting if it considers that one is necessary.

Authority

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.

2. The Committee is authorised 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 it considers this necessary.

General provisions

1. The Board should 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. The Committee established under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Exchange") should have clear terms of reference.
2. 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 Exchange's website and the Company's website.
3. The Committee should ensure the Company to include in the Corporate Governance Report statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view in cases where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors.
4. The Committee should be provided with sufficient resources to perform its duties.

Roles and Responsibilities

The roles and responsibilities of the Committee shall be:

Relationship with the Company's auditors

- (a) to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, 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 external auditor before the audit commences the nature and scope of the audit and reporting obligations and ensure co-ordination where more than one audit firm is involved;
- (c) to develop and implement policy on engaging an external auditor to provide 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 financial information of the Company

- (d) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and 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) 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 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 responses to these findings;
- (i) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
- (j) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (k) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (l) 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;
- (m) to review the Group's financial and accounting policies and practices;
- (n) to report to the Board on the matters in the code provision in relation to audit committee contained in Appendix 14 of the Listing Rules;
- (o) to consider other topics, as defined by the Board;

Review arrangements by which employees of the Company raise concerns in financial reporting, internal control or other matters

- (p) (i) to review arrangements that 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 the fair and independent investigation of these matters and for appropriate follow-up action; and
- (ii) to act as the key representative body for overseeing the Company's relations with the external auditor.

Reporting procedures

1. Full minutes of the meetings of the Committee should be kept by the Secretary. Draft and final versions of minutes of the Committee should be sent to all members of the Committee for their comment and records within a reasonable time after the meeting.
2. The Secretary shall circulate the minutes of meetings and reports of the Committee to all members of the Board.

Supplementary provisions

1. The Board of the Company shall be vested with final interpretation power of these terms of reference.
2. In the event of any inconsistency, the English language text of these terms of reference shall prevail over the Chinese language text.

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