



## **TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

*(Revised and effective on 29 June 2016)*

### **Principle**

The Audit Committee (the “**Committee**”) is established under the board of directors (“**Board**”) of China Vanguard Group Limited (the “**Company**”) pursuant to the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) for the purposes of reinforcing the decision-making function of the Board, enhancing the corporate governance structure and applying risk management, internal control and financial reporting systems effectively. The Committee is accountable to the Board.

### **Membership**

1. Members of the Committee shall be appointed by the Board. All members of the Committee should be Non-executive Directors and a majority of them shall be Independent Non-executive Directors. The Committee shall consist of not less than three members, at least one of who is an Independent Non-executive Director with appropriate professional qualifications or accounting or related financial management expertise (as defined the GEM Listing Rules and Guidelines from time to time). Any Committee member who resigns as a director of the Company shall become disqualified as the member of the Committee, and the Board shall appoint new member to fill the vacancy.
2. Any former partner of the Company’s existing auditing firm is precluded to be a member of the Committee for a period of one year 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).
3. The Chairman of the Committee shall be appointed by the Board and shall be an Independent Non-executive Director. The Committee has the same term as the Board. Member of the Committee is eligible to be re-appointed upon expiry term.

### **Attendance at Meetings**

1. Chief financial officer, head of the internal audit (if applicable) and representative of the external auditors (if appropriate) shall normally attend the meetings. Other Board members shall also have the rights of attendance. However, at least once a year, the Committee shall meet with the external and internal auditors (if applicable) without executive Board members present.

2. The Company Secretary shall be the secretary of the Committee. In the absence of the Company Secretary, the Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Committee.

### **Notice of Meetings**

Unless otherwise agreed, notice of each Committee meeting shall be given to each Committee member at least 14 calendar days before the date of the meeting. As far as practicable, an agenda and accompanying materials shall be forwarded to each member at least 3 days before the date of the meeting.

### **Frequency and Proceedings of Meetings**

1. The Committee should meet at least 4 times per year. Additional meetings should be held as the work of the Committee demands. The Chairman of the Committee may convene additional meetings at his discretion. The external auditors or internal auditor may request a meeting where necessary.
2. 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. The quorum for a meeting shall be two members. If members are not able to attend the Committee's meeting in person, members can take part in the meeting by telephone, video conferencing or through any other electronic medium (if any) and will be treated as attendance in person.
3. The secretary of the Committee shall keep full minutes of all Committee meetings. Draft and final version of minutes of meetings of the Committee shall be sent to all members for their comments and records respectively, in both cases within reasonable period of time after each meeting.

### **Communication with Shareholders**

The chairman of Committee shall, as far as practicable, attend the annual general meeting of the Company and make himself available to answer questions at the annual general meeting.

### **Authority**

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, director, agent or advisor are directed to co-operate with any request made by the Committee.
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 it considers this necessary.

3. The Committee shall be provided with sufficient resources to discharge its duties. The Committee may invite other executive Board members and senior management to attend the meetings for enquiries if necessary.

## **Duties**

The duties of the Committee are as follows:

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

- (i) to act as the key representative body for overseeing the Company's relations with the external auditors;
- (ii) 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 the external auditor, and any questions of its resignation or dismissal;
- (iii) to review and monitor the external'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; and
- (iv) 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 knowledge 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 need.

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

- (i) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, if any, and reviewing significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
  - (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from the audit;
  - (d) the going concern assumption and any qualifications;
  - (e) compliance with accounting and audit standards; and
  - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting.

- (ii) regarding 2(i) above:
  - (a) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice every year, with the Company's auditors; and
  - (b) 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.

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

- (i) to review the Company's financial controls, its risk management and internal control systems;
- (ii) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resource, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (iii) to review arrangements for employees of the Company to raise concerns in confidence, 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;
- (iv) 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;
- (v) 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 reviewing and monitoring its effectiveness;
- (vi) to review the Group's financial and accounting policies and practices;
- (vii) 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;

- (viii) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (ix) to report to the Board on the matters in the code provision under C.3 in the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules; and
- (x) to consider other topics, as defined by the Board.

### **Reporting Procedures**

1. The Committee chairman shall report formally to the Board on its proceedings after each meeting on all matters discussed.
2. The Committee shall report to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

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