

HUABAO INTERNATIONAL HOLDINGS LIMITED
(“Company”)
TERMS OF REFERENCE OF
AUDIT COMMITTEE (“Committee”)

(Adopted by the board of directors of the Company on 27 September 2004 and amended on 8 July 2005, 13 February 2009, 27 February 2012 and 8 July 2015)

Principle

This Committee is established under the board of the directors (“Board”) pursuant to the requirement of the Listing Rules for the purposes of reinforcing the decision-making function of the Board, improving the corporate governance structure and applying financial reporting, risk management and internal control systems effectively. The Committee is accountable to the Board.

Membership

1. Members of the Committee shall be appointed by the Board, comprising Non-Executive Directors only. The Committee shall consist of a minimum of three members, at least one Committee member should have appropriate professional qualifications or accounting or related financial management expertise (as defined in Listing Rules and Guidelines from time to time). The necessary quorum of the Committee shall be two persons. 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. 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 of term.

Attendance at meetings

3. Chief financial officer, head of the internal audit (if applicable) and representative of the external auditors shall normally attend the meetings. However, at least once every year the Committee shall meet with the external and internal auditors without Executive Directors present.
4. The Company Secretary shall act as the Committee’s secretary. The Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Committee.

Frequency of Meetings

5. Meetings shall be at least twice every year. The Committee must meet, at least twice every year with the Company’s auditors. The external auditors may request a meeting where necessary.
6. The Committee’s Chairman may also convene additional meetings at his discretion.
7. Meetings should be conducted formally, agenda and relevant supporting materials should be distributed in advance, and meetings minutes should be compiled.

Authority

8. 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 and all employees are directed to co-operate with any request made by the Committee.

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9. Relevant materials and reports for the Committee meetings shall be circulated by the Company Secretary three working days before the meetings for review. Any subsequent amendments to the materials or reports shall be informed on or before the meetings.
 - If necessary, the Committee may invite other Executive Directors and senior management to attend the meetings for enquiries.
10. The Committee is authorized by the Board to obtain outside legal and other independent professional advice, at the Company’s expense. If necessary, external parties with relevant experience and professional knowledge can be invited to attend the meetings.
11. Every Committee member is entitled to one vote. A resolution shall be passed by a simple majority of votes.
12. Where the Board disagrees with the Committee’s view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
13. The Committee should be provided with sufficient resources to perform its duties.

Duties

14. The duties of the Committee include the following:

Relationship with the Company’s auditors

- (a) acting as the key representative body for overseeing the Company’s relations with the external auditor;
- (b) be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (c) reviewing and monitoring 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 auditor the nature and scope of the audit and reporting obligations before the audit commences; and
- (d) developing and implementing 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.

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Review of the Company’s financial information

- (e) reviewing the annual and long-term financial budget and financing plans of the Company, and making recommendation to the Board in relation to financial strategies and policies (including financial risks);
- (f) monitoring 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 judgements 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.
- (g) Regarding (f) above:
 - (i) 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
 - (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 systems

- (h) reviewing the Company’s financial controls, risk management and internal control systems;
- (i) discussing 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, internal audit and financial reporting function;
- (j) reviewing 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;
- (k) considering 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;

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- (l) ensuring co-ordination between the internal and external auditors where an internal audit function exists, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the issuer, and reviewing and monitoring its effectiveness;
- (m) reviewing the group’s financial and accounting policies and practices;
- (n) reviewing 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;
- (o) ensuring that the Board will provide a timely response to the issues raised in the external auditor’s management letter; and
- (p) considering other topics, as defined by the Board. Also upon invitation by the Chairman of the Board, the Committee’s Chairman or when he is absent, another Committee member or his authorized representative, will answer questions at the Company’s annual general meeting.

Corporate Governance

- (q) developing and reviewing the Company’s policies and practices on corporate governance and making recommendations to the Board;
- (r) reviewing and monitoring the training and continuous professional development of directors and senior management;
- (s) reviewing and monitoring the Company’s policies and practices on compliance with legal and regulatory requirements;
- (t) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (u) reviewing the Company’s compliance with the code and disclosure in the Corporate Governance Report.

Reporting Procedures

- 15. The Committee shall report to the Board on the matters set out in the Corporate Governance Code (Appendix 14 to the Listing Rules).
- 16. Full minutes of the Committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meetings should be sent to all Committee members for their comment and records within a reasonable time after the meeting.
- 17. 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.