

**CHINA SHENGMU ORGANIC MILK LIMITED**  
**中國聖牧有機奶業有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1432) (“Company”)**

**TERMS OF REFERENCE FOR THE AUDIT COMMITTEE**  
**(Amended and restated version adopted with effect from 1 January 2016)**

**Constitution**

1. **The audit committee (the “Committee”)** is established pursuant to a resolution passed by the board of directors (the “**Board**”) of CHINA SHENGMU ORGANIC MILK LIMITED (the “**Company**”) on 18 June 2014.

**Membership**

2. The Committee shall be appointed by the Board from the non-executive directors only and shall consist of not less than three members, a majority of whom, including the chairman, shall be independent non-executive directors.
3. At least one of the independent non-executive directors serving as a member of the Committee shall have appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
4. A former partner of the existing auditing firm of the Company shall not act as a member of the Committee for a period of one year from the date of his ceasing (a) to be a partner of such firm; or (b) to have any financial interest in the firm, whichever is later.
5. If a member resigns, ceases to be a director or for any other reason ceases to be a member of the Committee resulting in the number of members to fall below the minimum, the Board shall, within three months of that event, appoint such number of new members as may be required to make up the minimum.
6. The company secretary of the Company or any person appointed by the Committee shall be the secretary of the Committee. In the absence of the secretary, the members present shall elect one of themselves or appoint another person as the secretary for that meeting.

### **Frequency of meetings**

7. The Committee shall meet not less than twice a year. Additional meetings may be held as and when required.
8. The Committee shall meet with the external auditors at least twice a year. The external auditors may request a meeting if necessary.

### **Notice of meetings**

9. A meeting of the Committee may be convened by any of its members.
10. Unless otherwise agreed by all the members of the Committee, notice of each meeting stating the time, date and place of the meeting shall be given to each member of the Committee and any other person invited to attend at least seven days prior to the date of the meeting.
11. Agenda and any supporting documents and papers shall be forwarded to each member of the Committee and any other person invited to attend at least three days prior to the date of the meeting (or such other period as the members may agree).

### **Proceedings of meetings and resolutions**

12. No business shall be transacted at any meeting of the Committee unless a quorum is present. The quorum of a meeting shall be two members of the Committee (at least one of whom should be an independent non-executive director).
13. Only members of the Committee have the right to attend Committee meetings. Other persons including but not limited to any director, management, external advisors or consultants may be invited by the Committee to attend for all or part of any meeting as and when appropriate.
14. Meetings of the Committee may be held either in person or through electronic means of communication or in such other manner as the members may agree.
15. Questions arising at any meeting shall be determined by a majority of votes of the members of the Committee present. Each member of the Committee shall have one vote. In the case of any equality of votes the chairman of the meeting shall have an additional or casting vote.

16. Members must abstain from voting in respect of any resolution which he is an interested party.
17. A resolution in writing signed by all members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee. Any such resolution may be contained in a single document or may consist of several documents in like form each signed by one or more of the members of the Committee.
18. Draft and final versions of minutes of the Committee meetings shall be sent to all Committee members for their comment and records within a reasonable time after the meeting.
19. The secretary of the Committee shall cause full minutes with sufficient details to be made in books to be provided for the purpose of the proceedings of all meetings of the Committee and of the attendances thereat and of all business transacted, resolutions passed and orders made at such meetings. Any such minutes of any meeting, if purporting to be signed by the chairman of such meeting or by the chairman of the next succeeding meeting of the Committee, shall be sufficient evidence without any further proof of the facts therein stated.
20. Save as otherwise provided herein expressly, proceedings of meetings of the Committee shall be governed by the provision of the articles of association of the Company for regulating the proceedings of meetings of the Board *mutatis mutandis*.

### **Authority**

21. The authorities of the Committee shall include such authorities set out in the relevant code provisions of the Corporate Governance Code (the “**Corporate Governance Code**”) as contained in Appendix 14 of the Listing Rules (as amended from time to time).
22. 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.
23. The Committee is authorized by the Board to obtain any independent professional advice, at the Company’s expense, from any person if it considers necessary to perform its duties.
24. The Committee is to be provided with sufficient resources to discharge its duties.

## **Duties and functions**

25. The duties and functions of the Committee shall include such duties and functions set out in the relevant code provisions of the Corporate Governance Code. Without prejudice to the foregoing, the Committee shall:-

### ***Relationship with the Company's auditor***

- (a) be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) 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) monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and 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 systems, risk management and internal control systems***

- (f) review the systems of the Company on financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the issuer's risk management and internal control systems (including without limitation the procedures for compliance with the requirements of Listing Rules and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
- (g) discuss the risk management and internal control system with management to ensure that management has performed its duty to have effective risk management and 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) 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;
- (i) where an internal audit function exists, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor its effectiveness;

- (j) review the group’s financial and accounting policies and practices;
- (k) inspect 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) ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;
- (m) review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, 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;
- (n) act as the key representative body for overseeing the Company’s relations with the external auditor;
- (o) report to the Board on the matters set out herein;
- (p) 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 contained in the annual report of the Company (“**Corporate Governance Report**”) a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view; and
- (q) consider other topics, as defined by the Board.

*Performing the Company’s corporate governance function*

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

## **Reporting Procedures**

26. The Committee shall report directly to the Board on its findings, decisions and/or recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as restriction on disclosure due to regulatory requirements). At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report the findings, decisions and/or recommendations of the Committee to the Board. The company secretary shall also circulate the minutes of meetings, reports and/or written resolutions (if any) of the Committee to all members of the Board.

## **Audit Committee Report**

27. The work of the Committee during each financial year shall be summarized and included in the corporate governance report which constitutes part of the annual report.

## **Annual General Meeting**

28. The chairman of the Committee or in his absence, another member of the Committee or failing this, his/her duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to answer questions at the annual general meeting on the Committee's work and its responsibilities.

## **Amendment**

29. Subject to the compliance with the articles of association of the Company and the Listing Rules, any amendment to these terms of reference shall be authorized by the Board.

## **Publication**

30. The Committee shall make available these terms of reference by publishing them on the websites of The Stock Exchange of Hong Kong Limited and the Company.

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*(If there is any inconsistency between the English and Chinese version of these terms of reference, the English version shall prevail.)*