



Qunxing Paper Holdings Company Limited  
群星紙業控股有限公司

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

**(Stock Code: 3868)**

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**Terms of Reference of Audit Committee**

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**1. Constitution**

1.1 The audit committee (the “**Committee**”) of Qunxing Paper Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) was established pursuant to a resolution passed by the board of directors (the “**Board**”) of the Company at its meeting held on 8 September 2007.

**2. Membership**

2.1 Members (“**Member(s)**”) of the Committee shall be appointed by the Board and the Committee shall consist of not less than three Members, a majority of whom shall be independent non-executive directors (“**Director(s)**”) of the Company.

2.2 The chairman (the “**Chairman**”) of the Committee shall be appointed by the Board and shall be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required in Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

2.3 The company secretary of the Company shall be the secretary (the “**Secretary**”) of the Committee.

2.4 In the event that the Committee comprises a non-executive Director who is former partner of the Company’s existing auditing firm, such non-executive Director shall be prohibited from acting as a Member for a period of one year commencing on the later of (a) the date of his/her ceasing to be a partner of the firm; or (b) the date of his/her ceasing to have any financial interest in the firm.

**3. Meetings**

3.1 The Committee shall hold meetings at least twice annually. The external auditor may request the Chairman to convene a meeting, if they consider necessary.

3.2 Unless otherwise agreed by all the Members, a Committee meeting shall be called by at least two days’ notice.

3.3 The quorum of a Committee meeting shall be two Members, at least one of whom should be an independent non-executive Director.

3.4 The finance Director, financial controller, the head of internal audit department (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditor shall normally attend meetings. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditor without executive Board members present.

- 3.5 Resolutions of the Committee shall be passed by a majority of votes which could also be passed by way of unanimous written resolutions. Meetings could be held in person, by telephone or by video conference.
- 3.6 Full minutes shall be kept by the Secretary. Draft and final versions of minutes shall be circulated to all Members for their comment and records respectively, in both cases within a reasonable period of time after the meeting. Such minutes shall be open for Directors' inspection.

#### **4. Authority**

- 4.1 The Committee should report directly to the Board.
- 4.2 The Committee may seek independent professional advice in appropriate circumstances at the Company's expense to perform its duties.
- 4.3 The Committee is granted an authority to investigate any activity within its terms of reference and all employees of the Company must cooperate as requested by the Members.
- 4.4 The Committee should be provided with sufficient resources to perform its duties.

#### **5. Duties**

- 5.1 The duties of the Committee shall be:

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

- (a) 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;
- (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 shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) 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 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) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Company should particularly focus on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from the 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) the Members 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 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 functions, compliance officer or auditors;
- (f) to be primarily responsible for making recommendation to the Board for the approval of any non-audit services provided to the Company by the external auditor. The Committee should ensure that the provision of such non-audit services does not impair the external auditor's independence or objectivity. When assessing the independence or objectivity of the external auditor in relation to the provision of non-audit services, the Committee should consider:
  - (i) whether the skills and experience of the audit firm make it a suitable supplier of such non-audit services;
  - (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the external auditor notwithstanding its proposed provision of the non-audit services;
  - (iii) the nature of the non-audit services, the related fee levels and the individual and aggregate fee levels relative to the audit firm; and
  - (iv) the criteria for determining the compensation of the individuals performing the non-audit services;

***Oversight of the Company's financial reporting system and internal control procedures***

- (g) to review the Company's financial controls, internal control and risk management systems;
- (h) to discuss with the internal control system with management to ensure that management has performed its duty to have an effective 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;
- (i) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (j) 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 to review and monitor its effectiveness;
- (k) to review the Group's financial and accounting policies and practices;
- (l) 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;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to report to the Board on the matters in the code provisions contained in the Corporate Governance Code set out in Appendix 14 to the Listing Rules;
- (o) 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 shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor; and
- (q) to consider other topics, as defined by the Board.

**6. General**

- 6.1 The Chairman or in his absence, another Member, or failing this his duly appointed delegate shall attend the annual general meetings of the Company prepared to respond to any shareholder questions on the Committee's affairs.
- 6.2 The Committee should make available these terms of reference, explaining its role and the authority delegated to it by the Board by including them on the website of The Stock Exchange of Hong Kong Limited and the website of the Company.

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