



# China AU Group Holdings Limited

中國金豐集團控股有限公司 \*

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

(Stock Code: 8176)

## TERMS OF REFERENCE OF AUDIT COMMITTEE

(Adopted by the Company pursuant to the Board resolution passed on 27 March 2012)

### CONSTITUTION

1. The board (the ‘**Board**’) of directors (the ‘**Directors**’) of the China Au Group Holdings Limited (the ‘**Company**’) has resolved to establish a committee of the Board to be known as the audit committee (the ‘**Audit Committee**’).

### MEMBERSHIP

2. The Audit Committee shall be appointed by the Board from amongst the non-executive Directors and shall consist of not less than three members, at least one of whom has professional qualifications or accounting or related financial management expertise. The majority of members should be independent non-executive Directors. A quorum shall be 2 members.
3. A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one year from the date of his ceasing:—
  - (a) to be a partner of the auditing firm; or
  - (b) to have any financial interest in the auditing firm,whichever is later (C.3.2).
4. The chairman of the Audit Committee (the ‘**Chairman**’) shall be appointed by the Board and shall be an independent non-executive Director.

### ATTENDANCE AT MEETINGS

5. The chief financial officer of the Company and a representative of the external auditors shall normally attend meetings. However, at least once a year the Audit Committee shall meet with the external auditors without executive Board members present.

\* *For identification purpose only*

6. The company secretary shall be the secretary of the Audit Committee (the “**Secretary**”).

## **FREQUENCY OF MEETING**

7. Meetings shall be held twice a year. The external auditors may request a meeting if they consider that is necessary.

## **AUTHORITY**

8. The Audit 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 Audit Committee.
9. The Audit 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.

## **DUTIES**

10. The duties of the Audit Committee shall include:

### **Relationship with external auditors**

- (a) to consider and make 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 resignation or dismissal *(C.3.3(a))*;
- (b) to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and the group’s accounting policies, to 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.3.3(b))*;
- (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 Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.*(C.3.3(c))*.

## **Review the Company's financial information**

- (d) to monitor integrity of Company's financial statements and the Company's annual report and accounts, interim report and quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgemental 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting *(C.3.3(d))*.
- (e) Regarding (d) above:
  - (i) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the external auditors; and
  - (ii) the Audit 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 external auditors *(C.3.3(e))*;

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

- (f) to review the Company's financial controls, internal control and risk management systems *(C.3.3(f))*;
- (g) to discuss 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; *(C.3.3(g))*;

- (h) 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 the management's response (C.3.3(k));
- (i) 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 (C.3.3(i));
- (j) to consider major investigation finding on internal control matters as delegated by the Board and or on its own initiative and management's response to these findings (C.3.3(h));
- (k) to review the group's financial and accounting policies and practices (C.3.3(j));
- (l) to ensure the Board will provide a timely response to the issues raised in the external auditor's management letter (C.3.3(l));
- (m) to report to the Board on the above matters (C3.3(m)); and
- (n) to consider other topics, as defined by the Board (C.3.3(n)).

## PROCEDURES

11. The Secretary shall circulate the draft and final versions of the minutes of meetings and reports of the Audit Committee to all members for comments and records within a reasonable time after each meeting. The Chairman shall report in the forthcoming regular Board meeting any key decisions made and shall table before the Board an index of meetings and issued discussed (C.3.1)(D.2.2). The Chairman, in consultation with the chief financial officer of the Company and the Secretary, should be primarily responsible for drawing up and approving the agenda of each Audit Committee meeting. The Chairman, with the assistance of the chief financial officer of the Company, shall ensure that all members shall have sufficient information in a timely manner to enable effective discussion at a Audit Committee meeting and be briefed of the issues arising at each Audit Committee meeting. The Secretary shall record minutes of all duly constituted meetings of the Audit Committee. All minutes shall record in sufficient detail the matters considered, decisions reached or recommendations made and any concerns raised by any member, the external auditor including dissenting views of any member.

**Note:** If there is any inconsistency between the English and Chinese version of this Term of Reference, the English version shall prevail.