



## AUSNUTRIA DAIRY CORPORATION LTD

### 澳優乳業股份有限公司

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

(Stock code: 1717)

("Company")

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#### TERMS OF REFERENCE OF THE AUDIT COMMITTEE

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**ADOPTED BY THE BOARD ON 19 SEPTEMBER 2009  
AND AMENDED BY THE BOARD ON 28 MARCH 2012**

#### 1. Membership

- |   | Code<br>Provision       |
|---|-------------------------|
| (a) The Audit Committee ("Committee") shall be appointed by the board of directors ("Board") from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of whom should be independent non-executive directors ("INEDs"). At least one member must be an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Where there are only three INEDs as members of the Board, all of them shall be appointed as members of the Committee. The constitution of the Committee shall comply with the requirements of the Listing Rules from time to time. | Listing<br>Rule 3.21    |
| (b) The chairman of the Committee shall be an INED and a member of the Committee appointed by the Board.  | Listing<br>Rule<br>3.21 |
| (c) A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Committee for a period of one year from the date of his ceasing:<br><br>(i) to be a partner of the firm; or<br><br>(ii) to have any financial interest in the firm,<br><br>whichever is the later.   | C.3.2                   |

## **2. Attendance at Meetings**

- (a) Unless otherwise stated herein, the meetings of the Committee are governed by the provisions contained in the Company's articles of association for regulating the meetings and proceedings of directors.
- (b) The quorum for a meeting of the Committee shall be two members, both of whom must be INEDs.
- (c) Subject to paragraph 4 below, the chairman of the Board, the chief financial officer and the head of internal audit and compliance ("IAC") of the Company shall normally attend meetings of the Committee. A representative of the external auditors shall be invited to attend the Committee meetings where appropriate. Other staff who have specific responsibility for an area under review may also be invited to attend.
- (d) The company secretary shall be the secretary of the Committee who should attend all meetings of the Committee.
- (e) Members of the Committee may participate in a meeting of the Committee by means of telephone conference or similar communications equipment by means of which all persons participating in the meeting can hear each other and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting.

## **3. Frequency of Meetings**

Meetings shall be held not less than two times a year. The external auditors or any members of the Committee may request a meeting if they consider that one is necessary and upon the receipt of such request, the secretary of the Committee shall convene such a meeting as soon as reasonably practicable and having regard to the convenience of all members with priority given to the INEDs.

## **4. Private Meetings**

The Committee may hold separate private meeting(s) with the internal auditors and/or the external auditors with no executive directors or senior management present whenever they think fit and appropriate.

## **5. Committee's Resolutions**

A resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee and may consist of several documents in like form each signed by one or more of the members of Committee. Such resolution may be signed and circulated by fax or other electronic communications. This provision is without prejudice to any requirement under the Listing Rules for a Board or Committee meeting to be held.

## **6. Authorities**

- (a) The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee or executive director and such persons are directed to co-operate with any request made by the Committee.
- (b) The Committee is authorised by the Board, and at the reasonable expense of the Company, 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.
- (c) The head of IAC of the Company shall report to the Committee in such form as is specified by the Committee.
- (d) The Committee shall report to the Board any suspected frauds or irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
- (e) 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 in the annual report of the Company an explanation of the Committee's recommendation and the reasons why the Board has taken a different view. C.3.5
- (f) The Committee is to be provided with sufficient resources to perform its duties.

## **7. General Responsibilities**

- (a) The Committee is to serve as a focal point for communication between other directors, the external auditors and the internal auditors as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.

- (b) The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (“Group”), and as to the adequacy of the external and internal audits.
- (c) The Committee shall fulfill other responsibilities as required by the Listing Rules from time to time.

## 8. Duties

The duties of the Committee shall be:

### Relationship with the Company’s external auditors

C.3.3(a)

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal;
- (b) to consider the plan for each year’s audit submitted by the external auditors and discuss the same at a meeting if necessary;
- (c) to review and monitor the external auditors’ independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. In this connection, the Committee shall:

- (i) obtain from the external auditors annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff;

C.3.3  
Note 1(ii)

- (ii) consider all relationships between the Company and the external auditors and in particular, to conduct annual review of all non-audit services performed by the external auditors and the related fee levels, and to ensure that such services do not impair the independence of the external auditors; and

C.3.3  
Note 1(i)

- (iii) meet with the external auditors, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditors may wish to raise;

C.3.3  
Note 1(iii)

- (iv) consider agreeing with the Board the Company’s policies on hiring employees or former employees of the external auditors and monitoring the application of these policies. The Committee should then be in a position to consider whether there has been or appears to be any impairment of the auditors’ judgment or independence for the audit.

C.3.3  
Note 2

- (d) to discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences; C.3.3(b)
- (e) to develop and implement policy on engaging the external auditors to supply non-audit services. For this purpose, external auditors shall include 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; C.3.3(c)

Review of the Company's financial information

- (f) to monitor integrity of the Company's financial statements and annual report and accounts and 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 Committee should focus particularly on: C.3.3(d)
  - (i) any changes to 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 requirements under the Listing Rules and other regulatory and legal requirements in relation to financial reporting.
- (g) in regard to (f) 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 external 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 system and internal control procedures*

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- (h) to review the Company's financial controls, internal control and risk management systems;
- (i) 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)
- (j) 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; C.3.3(h)
- (k) 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)
- (l) to review the Group's financial and accounting policies and practices; C.3.3(j)
- (m) to discuss any problems and reservations arising from the interim and final audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary) and to assist in the resolution of any disagreements or difference between the external auditors and management;
- (n) 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; C.3.3(k)
- (o) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; C.3.3(l)
- (p) 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 should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; C.3.7(a)
- (q) to act as the key representative body for overseeing the Company's relations with the external auditor; C.3.7(b)
- (r) to report to the Board on the above matters; and C.3.3(m)
- (s) to consider other topics, as defined by the Board. C.3.3(n)

## 9. Reporting Procedures

- (a) The Committee shall report to the Board. At the next meeting of the Board following a meeting of the Committee, the Chairman of the Committee shall report the findings and recommendations of the Committee to the Board. D.2.2
- (b) Full minutes of Committee meetings shall be kept by the Secretary of the Committee. Draft and final versions of minutes of Committee meetings shall be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting. C.3.1
- (c) Copies of the minutes of meetings of the Committee shall be provided to the Board at its meetings.

## 10. Availability and update of the terms of reference

These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. the Listing Rules) in Hong Kong. These terms of reference shall be made available to the public by including the information on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and Company's website at [www.ausnutria.com.hk](http://www.ausnutria.com.hk). C.3.4

*The Chinese version of this document is for reference only. In case of any discrepancy between the Chinese and the English version, the English version shall prevail.*