



Sino Distillery Group Limited

中國釀酒集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

Terms of Reference of the Audit Committee

Membership

1. The Audit Committee (the “Committee”) shall be appointed by the 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. A quorum shall be two members.
2. A former partner of the Company’s existing auditing firm is prohibited from acting as a member of the Committee for a period of 1 year from the date of his ceasing:
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm,whichever is later.
3. The chair of the Committee shall be appointed by the Board and should be an Independent Non-Executive Director.

Attendance at meetings

4. The Chief Financial Officer (“CFO”) or Financial Controller and a representative of the external auditors shall normally attend meetings. However, at least once a year the Committee shall meet with the external and internal auditors without executive Board members present.

Frequency of meeting

5. Meetings shall be held not less than 2 times a year. The external auditors may request a meeting if they consider that one is necessary.

Authority

6. 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 and all employees are directed to co-operate with any request made by the Committee.
7. The Committee is authorised 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.
8. The Committee should be provided with sufficient resources to perform its duties.

Duties

9. The duties of the Committee shall be:

Relationship with external auditor

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the audit fee and the 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 HKGAAP 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) to develop and implement policy on engaging an external auditor (which 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) to supply non-audit services, to report to the Board, identify and make recommendations on any matters where action or improvement is needed;
- (d) to act as the key representative body for overseeing the Company's relations with the external auditor;

Review of financial information

- (e) to monitor integrity of the Company's financial statements and annual report and accounts and interim report, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, focusing particularly 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;
- (f) in conducting the review described in (d) above, members of the Committee:
 - (i) should liaise with the Board and senior management and must meet with the auditors at least twice a year; and
 - (ii) should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts and should give due consideration to any matters that have been raised by the Company's CFO, Financial Controller or auditors;

Oversight of the financial reporting system and internal control procedures

- (g) to review the Company's financial controls, internal control and risk management systems;
- (h) 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;
- (i) to consider major investigation findings on internal control matters tabled by the CFO or Financial Controller 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 the 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 review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigate of these matters and for appropriate follow-up actions;
- (o) to report to the Board on the matters in these terms of reference; and
- (p) to consider other topics, as defined by the Board.

Procedures

10. Either the CFO or Financial Controller or Company Secretary can be the secretary of the Committee. The secretary shall circulate the draft and final versions of the minutes of meetings and reports of the Committee to all members for comments and records within a reasonable time after each meeting. The chair shall report in the forthcoming Regular Board Meeting any key decisions made and shall table before the Board an index of meetings and issues discussed. The chair, in consultation with the CFO or Financial Controller or Company Secretary, should be primarily responsible for drawing up and approving the agenda of each Committee meeting. The chair, with the assistance of the CFO or Financial Controller or Company Secretary shall ensure that all members shall have sufficient information in a timely manner to enable effective discussion at a Committee meeting and be briefed of the issues arising at each Committee meeting. The secretary shall record minutes of all duly constituted meetings of the 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, the CFO and the Financial Controller including dissenting views of any member.

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