



现代牧业

## **China Modern Dairy Holdings Ltd.**

中國現代牧業控股有限公司\*

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

### **Audit Committee Terms of Reference**

#### **1 Constitution**

The board of directors of the Company (the “Board”) hereby constitutes and establishes an audit committee (the “Audit Committee”) with authority, responsibility, and specific duties as described below.

#### **2 Membership**

2.1 The Audit Committee shall be appointed by the Board and shall consist of not less than three (3) members comprising non-executive directors.

2.2 The majority of the members of the Audit Committee shall be independent non-executive directors and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

2.3 The members of the Audit Committee shall appoint its Chairman who must be an independent non-executive director.

2.4 The quorum for a meeting of Audit Committee shall be two members.

\* *For identification purpose only*

2.5 A former partner of the Company's existing audit firm shall be prohibited from acting as a member of the Company's audit committee for a period of one (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.

2.6 Appointments to the Audit Committee shall be co-terminus with the directorship of the relevant members (whether by retirement, rotation or otherwise).

### **3 Secretary**

The Company Secretary of the Company or his nominee shall be the secretary of the Audit Committee.

### **4 Responsibility**

4.1 The function of the Audit Committee is to assist the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

4.2 The Audit Committee should serve as a focal point for communication between other directors, the external auditors, and the management as their duties relate to financial and other reporting, internal controls, and the audits.

## **5 Authority**

The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate as requested by members of the Audit Committee. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice as necessary to assist the Audit Committee and shall be provided with sufficient resources to perform its duties.

## **6 Duties**

The duties of the Audit Committee include:

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

- 6.1 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. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the corporate governance report a detailed explanation of the Audit Committee's view and the reasons for the Board to have taken such a different view;
- 6.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

6.3 to develop and implement policy on engaging of 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;

*Review of the Company’s financial information*

6.4 to monitor integrity of financial statements of the Company and the Company’s annual report and accounts, half-year report and, if prepared for publication, quarterly reports and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Audit Committee shall focus particularly on:

- (a) any changes in accounting policies and practices;
- (b) major judgmental areas;
- (c) significant adjustments resulting from audit;
- (d) the going concern assumption and any qualifications;
- (e) compliance with accounting standards;
- (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;

6.5 in regard to paragraph 6.4:-

- (a) members of the Audit Committee should liaise with the Board, senior management and must meet, at least twice a year, with the Company’s auditors; and

- (b) the Audit 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 function, compliance officer or auditors.

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

- 6.6 to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board, to review the Company's risk management and internal control systems;
- 6.7 to discuss the risk management and internal control system with management to ensure that management has performed its duty to have an effective 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;
- 6.8 to consider major investigation findings on risk management internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 6.9 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;
- 6.10 to review the financial and accounting policies and practices of the Company and its subsidiaries;
- 6.11 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;

- 6.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.13 to report to the Board on the matters in the provisions of the Corporate Governance Code contained in appendix 14 of the Listing Rules (as amended from time to time);
- 6.14 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. The Audit Committee shall ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action;
- 6.15 to act as the key representative body for overseeing the Company's relation with the external auditor; and
- 6.16 to consider other topics, as defined by the Board from time to time.

*Corporate Governance Functions*

- 6.17 to develop and review the Company's policy and practices on corporate governance and make recommendations to the Board;
- 6.18 to review and monitor the training and continuous professional development of Directors and senior management;
- 6.19 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- 6.20 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

6.21 to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

## **7 Frequency and proceedings of meetings**

7.1 The Audit Committee shall meet at least twice a year. Additional meetings should be held as the work of the Audit Committee demands.

7.2 The chairman of the Audit Committee may convene additional meetings at his discretion.

7.3 Proceedings of meetings of the Audit Committee shall be governed by the provisions of the Articles of Association of the Company.

7.4 The external auditors may request a meeting if they consider that one is necessary.

7.5 Notice of Audit Committee meetings shall be given to all members. Notice of the Audit Committee meetings shall be deemed to be duly given to a member if it is given to him personally, by word of mouth or given to him in writing sent to his last known address or any other address given by him to the Company or by electronic means by transmitting it to any email address supplied by the member to the Company for this purpose.

7.6 As necessary or desirable, the Chairman may request that members of management and representatives of the external auditors be present at meeting of the Audit Committee. Other Board members shall also have the right of attendance. However, at least once a year the Audit Committee shall meet with the external auditors without executive Board members present.

7.7 Meetings can be held in person, by telephone or by video conference. Members may participate in a meeting by means of communication equipment through which all persons participating in the meeting are able to hear each other.

7.8 A resolution in writing signed by all members of the Audit Committee shall be as valid and effective as if the same had been passed at a meeting of the Committee duly convened and held. Any such resolution shall be deemed to have passed at a meeting held on the date on which it was signed by the last member to sign.

7.9 Only members of the Audit Committee are entitled to vote at the meetings.

7.10 Resolutions of the Audit Committee shall be passed by a majority of votes of the members present.

## **8 Minutes**

8.1 Full minutes of the Audit Committee meetings shall be kept by the secretary of the Audit Committee and draft and final versions of minutes of the meetings shall be sent to all committee members for their comment and records within a reasonable time after the meeting.

8.2 The secretary shall circulate the minutes of meeting of the Audit Committee to all members of the Board.

## **9 General**

9.1 These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements, including those under the Listing Rules.

9.2 The Audit Committee should make available these terms of reference to the public, explaining its role and the authority delegated to it by the Board, by including them on the Hong Kong Exchanges and Clearing Limited news website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.moderndairyir.com](http://www.moderndairyir.com)).

Hong Kong, 23 February 2017