



Yashili International Holdings Ltd

雅士利國際控股有限公司

(the “Company”)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01230)

Terms of reference of the Audit Committee of the Board of Directors

1. CONSTITUTION

1.1 The Audit Committee is established pursuant to a resolution passed by the board of directors of the Company (the “Board”) on 8th October 2010, whereas the related terms of reference was amended and adopted by the Company pursuant to the resolution passed by the Board on 26 August 2015 and applicable to the Company’s accounting periods beginning on or after 1 January 2016).

2. MEMBERSHIP

2.1 Members of the Audit Committee shall be appointed by the Board from amongst the non-executive directors only 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 is an INED 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”). None of the members of the Audit Committee is a former partner of the Company’s existing auditor.

2.2 The Chairman of the Audit Committee shall be appointed by the Board and shall be an INED.

2.3 The company secretary shall be the secretary of the Audit Committee. In the absence of the company secretary, his/her delegate(s) or any person elected by the members present at the meeting of the Audit Committee, shall attend the meeting of the Audit Committee and take minutes.

2.4 The appointment of the members or secretary of the Audit Committee may be revoked, or additional members may be appointed to the Audit Committee by separate resolutions passed by the Board and by the Audit Committee.

2.5 The constitution of the Audit Committee should comply with the requirements of the Listing Rules as amended from time to time.

3. PROCEEDINGS OF THE COMMITTEE

3.1 Notice:

- (a) Unless otherwise agreed by all the Audit Committee members (either orally or in writing), notice of at least 7 days shall be given for a regular meeting of the Audit Committee. For all other meetings of the Audit Committee, reasonable notice shall be given.
- (b) An Audit Committee member may and, on the request of an Audit Committee member, the secretary to the Audit Committee shall, at any time summon a Committee meeting. Notice shall be given to each member in person orally or in writing or by telephone or by email or by facsimile transmission at the telephone or facsimile or address or email address from time to time notified to the secretary by such member or in such other manner as the members may from time to time determine.
- (c) Any notice given orally shall be confirmed in writing as soon as practicable and before the meeting.
- (d) Notice of meeting shall state the purpose, time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the members for the purposes of the meeting. In respect of regular meetings of the Audit Committee to be held as mentioned in clause 3.4 below, and so far as practicable for all other meetings of the Audit Committee, the agenda and accompanying papers shall be sent in full to all the members in a timely manner and at least 3 days before the intended date of the meeting (or such other period as all the members may agree).

3.2 Quorum: The quorum of the meeting shall be any two members of the Audit Committee.

3.3 Attendance:

- (a) Members of the Audit Committee may attend meetings of the Audit Committee either in person or through other electronic means of communication or in such other manner as the members may agree.
- (b) The director in charge of finance, other directors, company secretary (or his/her delegate(s)), the Head of Internal Audit (or any officer(s) assuming the relevant functions but having a different designation), relevant senior management, persons(s) invited by a Committee member and a representative of the external auditors shall normally attend meetings.

3.4 Frequency of meetings:

- (a) The Audit Committee shall hold at least two regular meetings annually or more frequently if circumstances require and with unanimous written consent to review and discuss the interim and annual financial statements the budget, revised budget and, if published for publication, quarterly report of the Company prepared by the Board.
- (b) The Audit Committee shall meet with the external auditors at least twice a year. The external auditors may request a meeting if they consider necessary.

4. WRITTEN RESOLUTIONS

- 4.1 Without prejudice to any requirement under the Listing Rules, written resolutions may be passed by all the Audit Committee members in writing.

5. ALTERNATE COMMITTEE MEMBERS

- 5.1 An Audit Committee member may not appoint any alternate.

6. AUTHORITY OF THE AUDIT COMMITTEE

- 6.1 The Audit Committee may exercise the following powers:

- (a) To seek any information it requires from any employee of the Company and its subsidiaries (together, the “Group”) and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend the Audit Committee meetings and to supply information and address the questions raised by the Audit Committee;
- (b) To monitor whether the Group’s management has, in the performance of their duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Listing Rules and other rules and regulations from time to time determined by the Board or a committee thereof);
- (c) To investigate any activity within these terms of reference and all suspected fraudulent acts involving the Group and request the management to make investigation and submit reports;
- (d) To review the Group’s risk management, unless expressly addressed by a separate board risk committee, or by the Board itself, and to review the internal financial control system;
- (e) To review the performance of the Group’s employees in the accounting and internal audit department;
- (f) To make recommendations to the Board for the improvement of the Group’s internal control procedures and system;

- (g) To request the Board to convene a shareholders' meeting (if necessary) for purposes of revoking the appointment of any director and to dismiss any employees if there is evidence showing that the relevant director and/or employee has failed to discharge his duties properly;
- (h) To request the Board to take all necessary actions, including convening an extraordinary general meeting, to replace and dismiss the auditors of the Group;
- (i) To obtain outside legal or other independent professional advice at the cost of the Company on any matters within these terms of reference as it considers necessary and to secure the attendance of outsiders with relevant experience and expertise, if the Audit Committee considers necessary;
- (j) To commission reports or surveys as are necessary to assist in the performance of the Audit Committee's duties at the cost of the Company;
- (k) To have access to sufficient resources in order to perform the Audit Committee's duties;
- (l) Where there is any disagreement between the Audit Committee and the Board on the selection, appointment, resignation or dismissal of the external auditors which cannot be resolved, to report its own recommendation on such matters to the shareholders;
- (m) To review annually these terms of reference and their effectiveness in the discharge of the Audit Committee's duties and to make recommendation to the Board any changes it considers necessary; and
- (n) To exercise such powers as the Audit Committee may consider necessary and expedient so that their duties under section 7 below can be properly discharged.

7. DUTIES

7.1 The duties of the Audit Committee shall be:

Relationship with the Company's auditors

- (a) To act as the key representative body for overseeing the Company's relations with the external auditor, and 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, and to 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; and to 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 the 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 Audit Committee should focus 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 assumption and any qualifications;
 - (v) compliance with accounting standards;
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (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 Company’s auditors; and
 - (ii) 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 systems

- (f) To review the Company’s financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company’s risk management and internal control systems;

- (g) To discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. 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;
- (h) To consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (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;
- (j) To review the Group's financial and accounting policies and practices;
- (k) 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;
- (l) To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) To report to the Board on the matters set out herein;
- (n) To consider other topics, as defined by the Board;
- (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, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (p) To consider other matters, as defined or assigned by the Board from time to time.

8. RECORDS KEEPING

- 8.1 Full minutes of the meetings of the Audit Committee and all written resolutions of the Audit Committee should be kept by the company secretary.
- 8.2 The secretary of the Audit Committee shall circulate the draft and final versions of minutes of the meetings or, as the case may be, written resolutions of the Audit Committee to all members for their comment and records within a reasonable time after the meeting or the passing of the written resolutions.
- 8.3 The secretary of the Audit Committee shall keep record of all meetings of the Audit Committee held during each financial year of the Company and records of individual attendance of members of the Audit Committee, on a named basis, at meetings held during that financial year.

9. REPORTING RESPONSIBILITIES

- 9.1 The Audit Committee shall report back to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

10. ANNUAL GENERAL MEETING

- 10.1 The Chairman of the Audit Committee or in his absence, another member of the Audit Committee or failing this, his duly appointed delegate, shall attend the Annual General Meeting of the Company and be prepared to respond to questions at the Annual General Meeting on the Audit Committee's work and responsibilities.

11. CONTINUING APPLICATION OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

- 11.1 Unless otherwise specified hereunder, the provisions contained in the Company's Articles of Association (as amended from time to time) for regulating meetings and proceedings of directors shall apply to the meetings and proceedings of the Audit Committee.

12. POWERS OF THE BOARD

- 12.1 The Board may, subject to compliance with the Articles of Association of the Company and the Listing Rules (including the Corporate Governance Code set out in Appendix 14 to the Listing Rules or if adopted by the Company, the Company's own corporate governance code), amend, supplement and revoke these terms of reference and any resolution passed by the Audit Committee provided that no amendments to and revocation of these terms of reference and the resolutions passed by the Audit Committee shall invalidate any prior act and resolution of the Audit Committee which would have been valid if such terms of reference or resolution had not been amended or revoked.

13. LANGUAGE

13.1 If there is any inconsistency between the Chinese version and English versions of these terms of reference, the English version shall prevail.