

**CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED**  
**中國中地乳業控股有限公司**

**TERMS OF REFERENCE OF THE**  
**AUDIT COMMITTEE**

**China ZhongDi Dairy Holdings Company Limited**  
**中國中地乳業控股有限公司**

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

(the “**Company**”)

**TERMS OF REFERENCE**  
**OF**  
**THE AUDIT COMMITTEE**  
**ADOPTED BY THE BOARD ON SEPTEMBER 24, 2015**

**1. Membership**

(a) The audit committee of the Company (the “**Committee**”) shall be appointed by the board of directors of the Company (the “**Board**”) from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of which 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 Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Exchange**”) (the “**Listing Rules**”). The constitution of the Committee shall comply with the requirements of the Listing Rules as amended from time to time.

LR3.21

(b) The chairman of the Committee shall be an INED.

LR3.21

(c) A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Committee for a period of one year from the date of his or her ceasing:

App 14 -  
C.3.2

(i) to be a partner of the auditing firm; or

(ii) to have any financial interest in the auditing firm,

whichever is later to occur.

## **2. Attendance at Meetings**

- (a) The quorum for a meeting of the Committee shall be two members, both of whom must be INEDs.
- (b) The chairman of the Board, the financial controller and internal auditor shall normally attend meetings of the Committee. A representative of the external auditors shall be invited to attend the meetings of the Committee where appropriate. Other staff who have specific responsibility for an area under review may also be invited to attend.
- (c) The company secretary shall be the secretary of the Committee and shall attend all meetings of the Committee.
- (d) Members of the Committee may participate in a meeting of the Committee by means of a conference telephone or other communications equipment through 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.

App 14-  
A.1.4,  
F.1.4,  
C.3.1

App 14-  
A.1.7 Note

## **3. Frequency and Proceedings of Meetings**

- (a) Meetings of the Committee shall be held not less than twice a year. The external auditors or any members of the Committee may request a meeting if they consider necessary. Upon the receipt of such request, the secretary of the Committee shall convene a meeting as soon as reasonably practicable and having regard to the convenience of all members with priority given to the INEDs.
- (b) Unless otherwise agreed by all the members of the Committee, a meeting shall only be called with at least seven days' prior notice.

#### **4. Committee's Resolutions**

Resolutions in writing signed by all the members of the Committee shall be as valid and effective 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 facsimile or other forms of electronic communications. This provision is without prejudice to any requirement under the Listing Rules for a meeting of the Board or Committee to be held.

#### **5. Authorities**

- (a) The 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 or executive director and such persons are directed to co-operate with any request made by the Committee.
- (b) The Committee is authorized by the Board, and at the reasonable expense of the Company, to obtain legal or other independent professional advice and to secure the attendance of other persons with relevant experience and expertise in the meetings of the Committee if it considers this necessary. App 14-  
C.3.6
- (c) The Committee shall report to the Board any suspected frauds or irregularities, failures of internal control and suspected infringements of any laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
- (d) The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the Exchange's website and the Company's website. The terms of reference of the Committee shall be provided upon request and the role and function of the Committee should be explained in the Corporate Governance Report in the annual report of the Company. App 14-  
C3.4,  
14-L.(a)

(e) Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee shall make arrangements to disclose in the corporate governance report in the annual report of the Company an explanation of the Committee's recommendation and the reason(s) why the Board has taken a different view.

App 14-  
C.3.5

(f) The Committee shall be provided with sufficient resources to perform its duties.

App 14-  
C.3.6

## 6. General Responsibilities

(a) The Committee shall serve as a focal point for communication between other directors, the external auditors and the internal auditors regarding their duties relating to financial and other reporting, risk management and internal control systems, external and internal audits and such other matters as the Board determines from time to time.

(b) The Committee shall 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 risk management and internal control systems of the Company and its subsidiaries (the "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 as amended from time to time.

## 7. Duties

The duties of the Committee shall be:

### Relationship with the Company's auditors

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of external auditors, and to approve remuneration and terms of engagement of external auditors, and any questions of resignation or dismissal of external auditors;

App 14-  
C.3.3(a)

- (b) to act as the key representative body for overseeing the Company's relationship with its external auditors; App 14-  
C.3.7(b)
- (c) to consider the plan for each year's audit submitted by the external auditors and discuss the same at a meeting if necessary;
- (d) 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: App 14-  
C.3.3(b)
- (i) consider all relationships between the Company and the external auditors (including non-audit services); App 14-  
C.3.3  
Note 1(i)
- (ii) 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; App 14-  
C.3.3  
Note 1(iii)
- (iii) obtain from the external auditors annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff; App 14-  
C.3.3  
Note 1(ii)
- (iv) conduct annual review of all non-audit services performed by the external auditors, the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the external auditors, the criteria which govern the compensation of the individuals performing the audit, the safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditors provide non-audit services, and to ensure that such services do not impair the independence or objectivity of the external auditors; and App 14-  
C.3.3  
Note 3
- (v) review the policies on hiring employees or the former employees of the external auditors, monitor the application of these policies and consider whether there has been or appears to be any impairment of the external auditors' judgment or independence for the audit. App 14-  
C.3.3  
Note 2

(e) to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences; App 14-C.3.3(b)

(f) to develop and implement policy on engaging external auditors 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 Committee should report to the Board, identifying and making recommendations on any matters where that action or improvement is needed; App 14-C.3.3(c)

Review of the Company’s financial information

(g) to monitor the integrity of the Company’s financial statements and annual report and accounts, half-yearly reports 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 shall focus particularly on: App 14-C.3.3(d)

(i) any changes in accounting policies and practices;

(ii) areas involving material judgments to be made;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with Listing Rules and legal requirements in relation to financial reporting.

(h) Regarding (g) 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

App 14-  
C.3.3(e)

(ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and 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*

(i) 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;

App 14-  
C.3.3(f)

(j) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have an effective internal control systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;

App 14-  
C.3.3(g)

(k) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on the Committee's own initiative, as well as management's response to these findings;

App 14-  
C.3.3(h)

(l) 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;

App 14-  
C.3.3(i)

(m) to review the Group's financial and accounting policies and practices;

App 14-  
C.3.3(j)



- (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; App 14-  
C.3.3(k)
  
- (o) to ensure that the Board provides a timely response to the issues raised in the external auditor’s management letter; App 14-  
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; to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions; App 14-  
C.3.7
  
- (q) to report to the Board on the above matters; and App 14-  
C.3.3(m)
  
- (r) to consider other topics, as defined by the Board. App 14-  
C.3.3(n)

## **8. Reporting Procedures**

- (a) The Committee shall report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements). At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report their decisions and recommendations of the Committee to the Board and the secretary of the Company shall submit to the Board copies of the minutes/written resolutions setting out the findings, recommendations and decisions of the Committee. App 14-  
D.2.2
  
- (b) Full minutes of meetings of the Committee shall be kept by the secretary of the Committee. Draft and final versions of minutes of the meetings shall be sent to all Committee members for their comment and records within 7 days after the meeting is held. App 14-  
C.3.1
  
- (c) The Committee shall make available the chairman of the Committee (or in his absence, at least one of its members) to attend the Company’s annual general meeting to answer shareholders’ questions about audit issues. App 14-  
E.1.2

- (d) To include a report on how the audit committee met its responsibilities in its review of the quarterly (if relevant), half-yearly and annual results and unless expressly addressed by a separate risk committee, or the Board itself, its review of the risk management and internal control systems, the effectiveness of the Company's internal audit function, and its other duties under the Corporate Governance Code in the Company's corporate governance report in the annual report.

## **9. Revision 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). Any amendment to these terms of reference shall be by way of resolution of the Board of the Company and shall be in full compliance with the Listing Rules and any other regulatory requirements.