

# **Guangnan (Holdings) Limited**

## **Audit Committee**

### **Terms of Reference**

#### **1. Formation**

The Audit Committee (the “Committee”) was formed pursuant to the Board of Directors (the “Board”) of Guangnan (Holdings) Limited (the “Company”) passed on 8 March 1999.

#### **2. Purpose**

2.1 To assist the Board in discharging its duties, the purpose of the Committee is :-

- (i) to review the adequacy and effectiveness of the internal control and compliance procedures within the Company and its subsidiaries (the “Group”);
- (ii) to review the principles, policies and practices adopted in the financial reporting, the preparation of the Group’s accounts and annual financial statements for compliance with all statutory requirements; and
- (iii) to maintaining an appropriate relationship with the Company’s external auditor.

2.2 The Committee has no executive powers with regard to its recommendations and does not relieve members of the Board of their respective responsibilities for financial reporting and corporate control.

#### **3. Composition of the Committee**

3.1 The Board shall appoint members of the Committee. The Committee shall consist exclusively of non-executive directors, the number of whom shall be determined by the Board from time to time provided that at no time shall there be less than three members of the Committee. The majority of the Committee members must be independent non-executive director. Although no executive director may be a member, the Chief Financial Officer, the internal auditor and a representative of the external auditor shall normally be expected to attend meetings of the Committee when necessary. Other members of the Board shall also have the right of attendance. However, at least once a year, the Committee shall meet with the external auditor without any executive directors present.

- 3.2 The Committee shall appoint one of its members to serve as its Chairman who must be independent non-executive director. The appointment will be subject to ratification by the Board. The quorum of the Committee shall be two Committee members.
- 3.3 The Company Secretary shall act as secretary to the Committee unless the Chairman of the Committee shall rule otherwise, in which case the Chairman will nominate a member of the Committee or another appropriate person to act as secretary.
- 3.4 Full minutes of Committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the committee meetings should be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.
- 3.5 A former partner of the Company's existing audit firm should be prohibited from acting as a member of the Company's audit committee for a period of 1 year commencing on 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 the later.

#### **4. Meetings**

- 4.1 Meetings shall be held not less than four times a year and at such other times as the Chairman of the Committee shall deem necessary.
- 4.2 The external auditor may request a meeting of the Committee if they deem that one is necessary.
- 4.3 A meeting shall be held before the meetings of the Board which consider interim and full year results. The Chairman of the Committee will circulate minutes of the meetings to all members of the Board. The Chairman of the Committee should be available to answer questions about its work at the Annual General Meeting of the Company.

#### **5. Authority**

- 5.1 The Committee is authorized by the Board to seek any information it requires from any officer or employee of the Company and all officers and employees are directed to co-operate with any request made by the Committee.

- 5.2 The Committee is authorized by the Board to obtain outside legal or other independent professional advice if it considers it necessary and to secure the attendance at its meetings of outsiders with relevant experience and expertise if it considers this to be necessary.

## **6. Duties of the Committee**

In particular, but without limitation, the duties of the Committee shall be:

### ***Relationship with the auditor***

- 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 resignation or dismissal of that auditor.
- 6.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should 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 the engagement of an external auditor to supply non-audit services. For this purpose, external auditor 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 having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

### ***Review of financial information of the Company***

- 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 judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Committee should focus particularly on:-
- (i) any changes in 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 the Rules Governing The Listing of Securities on

The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and other legal requirements in relation to financial reporting;

6.5 in regard to 6.4 above:-

- (i) members of the Committee must liaise with the Company’s Board and senior management and the Committee must meet, at least once a year, with the Company’s auditor; and
- (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must 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 auditor;

***Oversight of the Company’s financial reporting system and internal control procedures***

- 6.6 to review the Company’s financial controls, internal control and risk management systems.
- 6.7 to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company’s accounting and financial reporting function, and their training programmes and budget.
- 6.8 to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management’s response.
- 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 the effectiveness of the internal audit function.
- 6.10 to review the Group’s financial and accounting policies and practices.
- 6.11 to review the external auditor’s management letter, any material queries raised by the auditor to management in respect of the 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 set out in the code provisions regarding Audit Committee of the Appendix 14 of the Listing Rules.

6.14 to consider other topics, as defined by the Board.

## **7. Others**

7.1 The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board.

7.2 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 a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

7.3 The Committee should be provided with sufficient resources to discharge its duties.

7.4 In recognition of the time and effort required of the Committee's members in discharging the duties set out in Section 6 above, the Company shall remunerate non-executive directors for serving on the Committee to reflect the time they devote to the Company's affairs. The remuneration shall be determined by the Board.

*This Terms of Reference takes into effect from 1 January 2009.*