



**China Wood Optimization (Holding) Limited**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(the "Company")**

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

*(Adopted at the Board Meeting on 12 November 2015)*

## **CONSTITUTION**

1. The board (the "Board") of directors of the Company (the "Directors") has resolved on 20 December 2013 to establish a committee known as the Audit Committee (the "Committee").

## **OBJECTIVE**

2. The Committee is to assist the Board establish and maintain formal and transparent arrangements to consider how to apply financial reporting and internal control principles and maintain an appropriate relationship with the Company's auditors.

## **MEMBERSHIP**

3. The Committee shall consist of not less than three members, all of whom must be non-executive Directors and a majority of whom must be independent non-executive Directors. At least one member of the Committee must be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required in the Rules Governing Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The Committee shall be chaired by an independent non-executive Director. All members and the chairman of the Committee shall be appointed and removed by the Board.
4. A former partner of the Company's existing auditing firm is prohibited from acting as a member of the Committee for a period of one 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.
5. No member of the Committee shall appoint any alternate to attend the meeting or perform his duties thereat.
6. The company secretary of the Company or his representative (in his absence) shall be the secretary of the Committee (the "Secretary"). The Committee may from time to time appoint any other person with appropriate qualification and experience as the Secretary.

## **QUORUM**

7. The quorum necessary for the transaction of the business of the Committee shall be two members of the Committee.

## **ATTENDANCE OF MEETINGS BY NON-MEMBERS**

8. The financial controller and other financial officers shall normally attend meetings. The external auditors may be invited to attend meetings. However, at least once a year the Committee shall meet with the external auditor without executive Board members present.

## **FREQUENCY OF MEETINGS**

9. Meetings shall be held not less than 2 times a year. The members of the Committee or the external auditors may at any time request a meeting if they consider necessary.

## **NOTICE OF MEETING**

10. Unless otherwise agreed by all Members, the notice of convening a meeting of the Committee shall be sent out not less than 5 working days before the meeting.
11. Notice of the Committee meeting shall state the date, 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 Committee for the purposes of the meeting.

## **RESOLUTIONS**

12. Resolutions of the Committee at any of its meetings shall be passed by a majority of votes of its members present.
13. In the event of equal votes, the chairman of the Committee shall have the right of second vote or casting vote.
14. Resolutions in writing signed by all members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

## **AUTHORITY**

15. 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.
16. The Committee is authorised by the Board to make recommendations to the Board for the improvement of the Group's risk management and internal control systems.
17. 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 necessary.
18. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Committee shall arrange for the Corporate Governance Report in the Annual Report to include an explanation of the Committee's view and the reasons why the Board has taken a different view.
19. The Committee shall be provided with sufficient resources to perform its duties.

## **DUTIES**

20. The terms of reference of the Committee should include at least the following duties:-

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

- (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 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. The Committee should 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. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

*Review of financial information of the Company*

- (d) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these 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 GEM Listing Rules and legal requirements in relation to financial reporting;
- (e) In regard to (d) 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 auditors; and
  - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports 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*

- (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 investigations 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 review arrangements by which employees can raise in confidence concerns about possible improprieties in financial reporting, internal control or other matters. The Committee is to ensure proper arrangements are in place for the fair and independent investigation of such concerns and appropriate follow up action;
- (n) to act as the key representative body for overseeing the Company's relations with the external auditor;

- (o) subject to any applicable legal or regulatory restrictions on the Committee, to report to the Board on the matters set out above;
- (p) to consider other topics, as defined by the Board; and
- (q) to make available its terms of reference, explaining the Committee's role and the authority delegated to it by the Board by including them on The Stock Exchange of Hong Kong Limited's website and the Company's website.

## **REPORTING PROCEDURES**

- 21. The Secretary shall circulate the draft and final minutes of meetings and all written resolutions of the Committee to all members of the Committee for their comment and records within a reasonable time after the meeting.
- 22. The Secretary shall maintain as part of the Company's corporate records all approved minutes of Committee meetings and reports.
- 23. Any written resolution shall be tabled and noted at the next meetings of the Committee and the Board.
- 24. The minutes of the Committee shall be kept by the Secretary and such minutes shall be open for inspection at any reasonable time on reasonable notice by any Director.

## **ANNUAL GENERAL MEETINGS OF THE COMPANY**

- 25. The chairman of the Committee or in his/her absence, another member of the Committee shall attend the Company's annual general meetings and be prepared to respond to questions raised by shareholders of the Company on the Committee's activities and responsibilities.

## **POWERS OF THE BOARD**

- 26. The Board may, subject to compliance with the articles of association of the Company and the GEM Listing Rules, amend, supplement and revoke the terms of reference herein and any resolutions passed by the Committee provided that no amendments to and revocation of the terms of reference herein and the resolutions passed by the Committee shall invalidate any prior act and resolutions of the Committee which would have been valid if the terms of reference herein or resolution had not been amended or revoked.