

# CHANGSHOUHUA FOOD COMPANY LIMITED

## 長壽花食品股份有限公司

(Incorporated in the Cayman Islands with limited liability)  
(Stock code: 1006)

### TERMS OF REFERENCE

#### FOR AUDIT COMMITTEE

#### 1. Purpose

The purpose of the audit committee (the “**Committee**”) of Changshouhua Food Company Limited (the “**Company**”) is to assist the board of directors of the Company (the “**Board**”) to establish formal and transparent arrangements for considering how the Board will apply the financial reporting and internal control principles, and for maintaining an appropriate relationship with the external auditors of the Company.

#### 2. Membership

- 2.1 Members of the Committee shall be appointed by the Board. The Committee shall consist of not less than three members (the “**Members**” and each, a “**Member**”) from amongst the non-executive directors and independent non-executive directors of the Company, of whom the majority shall be independent non-executive directors. At least one Member shall have appropriate professional qualifications or accounting or related financial management expertise as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
- 2.2 A former partner of the Company’s existing external auditing firm should be prohibited from acting as a Committee member for a period of two years from the date of his/her ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the later.
- 2.3 The Board shall from time to time vary the composition of the Committee as may be required by the Listing Rules, or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time.
- 2.4 Subject to the Listing Rules, or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time, the Board may appoint and remove Members in accordance with the Articles of Association of the Company (“**Articles of Association**”). Members shall serve on the Committee for such terms as the Board may fix, and in any case at the Board’s will, whether or not a specific term is fixed. The Board may remove Members at its sole discretion.
- 2.5 The chairman of the Committee (the “**Chairman**”) shall be appointed by the Board and shall be an independent non-executive director of the Company.

### 3. Meetings

#### 3.1 Frequency

The Committee shall meet as often as it determines necessary, but not less than twice a year. Any Member, or the Secretary (as defined below) on requisition of any Member may call a meeting of the Committee. The external auditors may request a meeting of the Committee if they consider that one is necessary.

#### 3.2 Notice

Notice of any meetings of the Committee has to be given to all Members prior to such meeting being held in accordance with the Articles of Association. Notice of a meeting of the Committee shall be deemed to be duly given to a Member if it is given to such Member in writing or verbally (including in person or by telephone) or via electronic mail or by telephone or in such other manner as the Board may from time to time determine.

#### 3.3 Quorum

The quorum for decisions of the Committee shall be any two Members, of whom one has to be an independent non-executive director of the Company.

#### 3.4 Resolutions

Resolutions of the Committee shall be passed by a majority of votes, or by way of written resolutions signed by all of the Members in accordance with the Articles of Association. In the case of any equality of votes, the Chairman shall have an additional or casting vote. Members may participate in any meeting of the Committee by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously.

#### 3.5 Secretary

The company secretary of the Company shall be the secretary of the Committee (the “**Secretary**”).

#### 3.6 Minutes

Full minutes of the Committee meetings shall be kept by the Secretary. Draft and final versions of minutes of meetings shall be sent to all Members for their comments and records respectively, within a reasonable time after the meeting.

#### 3.7 Attendance

The Secretary and the chief financial officer of the Company shall normally attend meetings of the Committee. Other Board members shall also have the right of attendance. The Committee must meet the auditors of the Company not less than once a year and where necessary, a representative of the external auditors of the Company will be required to attend the meeting of the Committee.

### 3.8 Procedures

The Committee may establish its own procedures, including the formation and delegation of authority to subcommittees, in a manner not inconsistent with these terms of reference, resolutions of the Board, the Articles of Association of the Company and other corporate governance documents, the Listing Rules and applicable laws or regulations.

### 3.9 Chairman

The Chairman (or if he or she is not present within five (5) minutes after the time appointed for holding a meeting, a Member appointed to be Chairman by the Members present) shall preside at all meetings of the Committee.

## 4. **Duties**

The duties of the Committee shall include the following:

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

- 4.1 To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;
- 4.2 To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- 4.3 To discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
- 4.4 To develop and implement policy on engaging external auditors to supply non-audit services. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

### *Note:*

*For this purpose, "external auditors" 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.*

- 4.5 To report to the Board, identifying and making recommendations on any matters where action or improvement is needed ;
- 4.6 To act as the key representative body for overseeing the Company's relations with the external auditors;

*Review of the Company's financial information*

- 4.7 To monitor integrity of the Company's financial statements and annual report and accounts, half-year report 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 the audit;
  - (iv) the going concern assumption and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

4.8 Regarding to 4.7 above:

- (i) Members should liaise with the Board and senior management of the Company, and the Committee shall meet, at least twice a year, with the Company's external auditors; and
- (ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in the report 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 external auditors;

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

- 4.9 To review the Company's financial controls, and to review the Company's risk management and internal control systems;
- 4.10 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;
- 4.11 To consider major investigation finding on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

- 4.12 To ensure co-ordination between the internal and external auditors in respect of carrying out the internal audit function, and to ensure that the same is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- 4.13 To review the financial and accounting policies and practices of the Company and its subsidiaries;
- 4.14 To review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- 4.15 To ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- 4.16 To report to the Board on the matters under the heading "C.3 Audit Committee – Code Provisions" in Appendix 14 to the Listing Rules (Code on Corporate Governance Practices) (the "**CG Code**");
- 4.17 To consider other topics, as defined by the Board;
- 4.18 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company shall include in its corporate governance report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view; and
- 4.19 The Committee should also review the arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

## **5. Authority**

- 5.1 The Committee is authorized by the Board:
  - (a) To investigate any activity within its terms of reference;
  - (b) To seek any information it requires from any employee of the Company, and all employees of the Company are directed to co-operate with any request made by the Committee;
  - (c) To obtain advices from outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and

- (d) To meet separately with, and have direct, independent and confidential access to, management (including the chief financial officer of the Company), the internal auditors (or other personnel responsible for the internal audit function) and external auditors of the Company, or any other persons as it deems necessary or appropriate in carrying out its duties.

5.2 The Committee shall be provided with sufficient resources to perform its duties.

## **6. Reports**

6.1 The Committee shall report to the Board on the following matters on the major items covered by the Committee at each meeting of the Committee, and provide additional reports to the Board as the Committee may determine to be appropriate, including review with the Board of any issues that arise from time to time with respect to the quality or integrity of the Company's financial statements, the performance and independence of the external auditors or the performance of the internal audit function.

6.2 The Committee shall prepare a report on the work performed by it during the year in discharging its responsibilities in its review of the quarterly (if relevant), half-yearly and annual results and system of internal control, and its other duties set out in the CG Code, for inclusion in the Company's report in corporate governance practices prepared by the Board from time to time in accordance with requirements of the Listing Rules.