

Shenzhen Pagoda Industrial (Group) Corporation Limited
(Stock code: 2411)

**Terms of Reference of the Audit Committee
of the Board of the Company**

Chapter 1 General Provisions

Article 1 In order to supervise the accounting and financial reporting procedures of Shenzhen Pagoda Industrial (Group) Corporation Limited (the “**Company**”) and the auditing of the financial statements of the Company, the Audit Committee is established and these terms of reference are formulated in accordance with the Company Law of the People’s Republic of China (the “**Company Law**”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the Articles of Association of the Company (the “**Articles of Association**”) and other relevant applicable laws, regulations and regulatory documents.

Article 2 The duties of the Audit Committee are limited to supervision. The management of the Company is responsible for the establishment, review and maintenance of financial and accounting policies, practices and procedures and the preparation of financial statements of the Company in accordance with generally accepted accounting standards and other applicable reporting and disclosure standards.

Chapter 2 Composition

Article 3 The Audit Committee shall consist of at least three (inclusive) directors.

Article 4 The Audit Committee shall solely comprise non-executive directors, and a majority of whom shall be independent non-executive directors with at least one independent non-executive director possessing the appropriate professional qualifications or accounting or related financial management expertise.

Article 5 The Audit Committee shall have one chairman (convener), who shall be a member of the Audit Committee and appointed by the Board, and the chairman shall preside over the work of the Audit Committee. The chairman must be an independent non-executive director. The secretary of the Audit Committee shall be the Company’s secretary or any person designated by the Audit Committee from time to time.

Article 6 A former partner of the Company’s existing external auditing firm that is engaged to audit the Company’s accounts shall be prohibited from acting as a member of the Audit Committee for a period of 2 years commencing from the date of the person ceasing: (1) to be a partner of the firm, or (2) to have any financial interest in the firm, whichever is later.

Article 7 The term of office of the Audit Committee shall be the same as that of the Board. Members of the Audit Committee may be re-elected upon expiry of their term of office. If any member ceases to be a director of the Company prior to expiry of his/her term of office, he/she shall automatically be disqualified for acting as a member of the Audit Committee and the Board shall fill the consequential vacancy in accordance with Article 4 to Article 6 above.

Chapter 3 Duties and Authorities

Article 8 The main duties and authorities of the Audit Committee are as follows:

- (1) to propose to engage or change external auditors;
- (2) to supervise the internal audit system of the Company and its implementation;
- (3) to undertake the communication between internal auditors and external auditors;
- (4) to review financial information of the Company and its disclosure;
- (5) to review the internal control system of the Company and audit major related party transactions;
- (6) to investigate into any activity within its terms of reference;
- (7) to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee;
- (8) to obtain outside legal or other independent professional advice at the Company's expense;
- (9) to secure the attendance of any person with relevant experience and expertise at the meeting of Audit Committee as it considers appropriate; and
- (10) to perform other matters authorized by the Board of the Company.

Article 9 The duties of the Audit Committee for monitoring and evaluating the work of the external auditor shall at least include the following:

- (1) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any questions of their resignation or dismissal;
- (2) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences;
- (3) to develop and implement policy on engaging external auditors to supply non-audit services. For this purpose, "external auditors" 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 knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally; and
- (4) to report to the Board, and make recommendations on any matters where action or improvement is needed

Article 10 The duties of the Audit Committee for reviewing the Company's financial reports and expressing opinions thereon shall at least include the following:

- (1) to monitor 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 judgements contained in them. In reviewing these reports before submission to the Board, the Audit Committee shall focus particularly on (a) any changes in accounting policies and practices, (b) major judgmental areas, (c) significant adjustments resulting from audit, (d) the going concern assumptions and any qualifications, (e) compliance with accounting standards; and, (f) compliance with the Listing Rules and legal requirements in relation to financial reporting; and
- (2) regarding paragraph (1) above, (a) members of the Audit Committee should liaise with the Board and the Company's senior management and the Audit Committee must meet, at least twice a year, with the Company's external auditors; and (b) the Audit Committee should 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 auditors.

Article 11 The duties of the Audit Committee for overseeing the Company's financial reporting system, risk management and internal control systems shall at least include the following:

- (1) 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;
- (2) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to set up effective systems. This discussion shall include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (3) 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;
- (4) to ensure coordination 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;
- (5) to review the Group's financial and accounting policies and practices;
- (6) to review the external auditors' management letter, any material queries raised by the auditors to management in relation to accounting records, financial accounts or control systems and management's response;
- (7) to ensure that the Board will provide a timely response to the issues raised in the external auditors' letter to the management;
- (8) to report to the Board on the matters included under the heading "Audit Committee" in Appendix 14 to the Listing Rules;

- (9) to review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (10) to act as the key representative body for overseeing the Company's relations with the external auditors; and
- (11) where the Board disagrees with the Audit Committee's opinion on the selection, appointment, resignation or dismissal of the external auditors the Company shall include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

Article 12 The Audit Committee shall establish a whistleblowing policy and system for employees and those who deal with the Company to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company.

Article 13 The Audit Committee shall establish policies and systems that promote anti-corruption laws and regulations.

Chapter 4 Rules of Procedure

Article 14 The Audit Committee shall meet at least twice a year. External auditors of the Company may request to convene a meeting if it thinks necessary. Chief Financial Officer, and a representative of the Company's external auditors shall normally attend meeting(s) of the Audit Committee. However, at least once a year the Audit Committee shall meet with the external and internal auditors without executive Directors present.

Article 15 A notice shall be given to all members three days before the date of the meeting. The meeting shall be convened and presided over by the chairman. If the chairman is unable or fails to perform his/her duties, he/she may appoint another member (who shall be an independent non-executive director) to perform his/her duties on his/her behalf. Where an urgent meeting has to be convened, a notice of meeting may be given in writing, by telephone, by communication or by other means.

Article 16 A meeting of the Audit Committee shall be held only if more than half of the members are present. Each member shall have one vote. A resolution of the meeting shall be approved by more than half of all the members of the Audit Committee.

Article 17 Members of the Audit Committee shall express clear opinions on the matters considered at the meeting. If a member is unable to attend a meeting of the Audit Committee in person, he/she is entitled to delegate another member in writing to vote on his/her behalf.

The proxy form shall specify the name of the proxy, subject matter, authority and validity period, and shall be signed by the principal. When a proxy attends the meeting of the Audit Committee, he/she shall issue the proxy form and exercise the rights he/she is authorized to exercise.

Article 18 A member of the Audit Committee who fails to attend two consecutive meetings in person or by proxy shall be deemed as unable to perform his/her duties, and the Audit Committee shall propose to the Board to remove him/her.

Article 19 In principle, meetings of the Audit Committee shall be held physically, and they may be held by means of communication or by way of written resolution, as long as the members can fully express their opinions and comply with the relevant regulatory rules.

Article 20 Votes at meetings of the Audit Committee shall be taken by show of hands or by poll.

Article 21 Directors, supervisors and senior management member(s) of the Company who are not members of the Audit Committee may be invited to attend the meeting(s) of the Audit Committee if necessary.

Article 22 A member shall refrain from discussions regarding any issue related to such member at a meeting of the Audit Committee. Such meeting may be held as long as it is attended by more than half of the non-related members, and resolutions of such meeting shall be subject to approval by more than half of the non-related members. If the number of non-related members attending the meeting is less than half of the total number of non-related members of the Audit Committee, the issue shall be submitted to the Board for consideration.

Article 23 The Audit Committee shall keep minutes of the meeting(s). The minutes shall be prepared by the office of the Board and shall include the following:

- (1) method, date, venue and name of the chairman of the meeting;
- (2) details of attendance, absence and attendance by proxy;
- (3) names and positions of persons attending the meeting;
- (4) agenda of the meeting;
- (5) key points of speeches to be delivered by members and relevant attendees; and
- (6) the name of the person taking the minutes.

Members attending a meeting of the Audit Committee shall sign on the minutes of such meeting. The minutes shall be kept by the secretary of the Board for a minimum of ten years.

Article 24 Resolutions and voting results passed at the meeting(s) of the Audit Committee shall be reported to the Board in writing. The Audit Committee shall report to the Board its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as restriction on disclosure due to regulatory requirements).

Article 25 Members of the Audit Committee and those in attendance are obliged to keep matters considered at the meeting confidential and shall not disclose relevant information without authorization.

Chapter 5 Supplementary Provisions

Article 26 These terms of reference shall take effect and be implemented from the day on which H shares of the Company are listed and traded on The Stock Exchange of Hong Kong Limited.

Article 27 In case of any inconsistency between the Chinese version and the English version of these terms of reference, the Chinese version shall prevail.

Article 28 For any matters not covered in these terms of reference, the relevant laws and regulations, the Listing Rules, other requirements of the Hong Kong securities regulatory authority, and the relevant provisions of the Articles of Association shall apply. If the relevant provisions of these terms of reference contravene with the laws and regulations, the Listing Rules, other requirements of the Hong Kong securities regulatory authority and the Articles of Association as enacted or amended in the future, such relevant laws and regulations, the Listing Rules, other requirements of the Hong Kong securities regulatory authority, and the existing or revised Articles of Association shall prevail.

Article 29 The Board shall be responsible for amending and interpreting the terms of reference.