



CHINA FOODS LIMITED
中國食品有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 00506)

Terms of Reference of the Audit Committee

Adopted in September 1998

First update in April 2009

Second update in March 2012

Third update in November 2015

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Constitution

1. The board of directors (the **“Board”**) of China Foods Limited (the **“Company”**) resolved to establish the Audit Committee (the **“Committee”**) on 15 September 1998.

Objective

2. The Committee shall assist the Board in providing an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Company and to maintain an appropriate relationship with the Company’s auditors.

Membership

3. The Committee members shall be appointed by the Board on the recommendation of the nomination committee from amongst the non-executive directors of the Company and shall consist of not less than three members, at least one of whom shall be an independent non-executive director with appropriate professional qualifications or appropriate accounting or related financial management expertise.
4. The majority of the members of the Committee shall be independent non-executive directors.
5. The chairman of the Committee shall be appointed by the Board following receipt of a proposal from the nomination committee, who shall be an independent non-executive director.

Committee secretary

6. The company secretary of the Company shall act as the secretary of the Committee (the **“Secretary”**).

Proceedings of meetings

7. A quorum shall be two members.
8. The Committee members shall participate in meetings of the Committee either in person or by means of a conference telephone or similar communications equipment which all persons participating in the meeting are capable of hearing each other.
9. Meetings of the Committee shall be chaired by the chairman of the Committee. In the absence of the chairman of the Committee, the remaining members present shall elect one of them to chair the meeting.
10. The financial controller, the head of internal audit and representative(s) of the external auditor shall normally attend meetings. The Committee shall invite any appropriate persons to attend the meeting whenever it is necessary. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditor without the presence of executive Board members.

Frequency of meetings

11. Regular meetings of the Committee shall be held not less than twice during a financial year, with each before the Board meeting for approving publication of announcements of interim results and annual results respectively. Ad hoc meetings may also be convened whenever situation warrants. The external auditors may request a meeting if they consider that one is necessary.

Arrangement for and notices of meetings

12. Meetings of the Committee shall be called by the Secretary as instructed by the chairman of the Committee, or requested by the Board or external auditor (as the case may be).
13. Notices of at least 14 days shall be given to all members and other attendees for regular meetings of the Committee. For all other meetings, reasonable notices shall be given.
14. If any member of the Committee wishes to include matters in the agenda for a particular regular meeting, the member may notify the Secretary such matters in writing within seven days after a notice of the meeting is given.

Minutes of meetings

15. The Secretary shall minute in sufficient detail the matters considered and decisions reached of all Committee meetings, including any concerns raised by members of the Committee or dissenting views expressed as well as the names of those present and in attendance.
16. Draft and final versions of minutes of meetings of the Committee shall be sent to all Committee members for their comment and records respectively within a reasonable period of time after the meetings are held. Minutes of meetings of the Committee are open for inspection by any director at any reasonable time on reasonable notice to the company secretary.

Authority

17. 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 and all employees are directed and required to co-operate with any request made by the Committee.

Access to services of company secretary

18. The Committee shall be provided with sufficient resources to perform its duties. Members of the Committee shall have access to the advice and services of the company secretary to ensure that Board procedures and all applicable rules and regulations are followed.

Access to independent professional advice

19. The Committee is authorized by the Board to obtain, in connection with its duties and at the Company's expense, any outside legal or other independent professional advice and to secure the attendance of external advisors with relevant experience and expertise at meetings if it considers this necessary. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it to discharge its duties.

Duties

20. The principal purpose of the Committee shall be to ensure the Company to duly comply with the financial reporting and internal control principles of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Board to maintain an appropriate relationship with the Company's external auditors.
21. The Committee shall perform the following duties:

Relationship with the external auditor

- 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 deal with 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. Procedures to review and monitor the independence of external auditor may include:-
 - i. consider all relationships between the Company and the audit firm (including non-audit services);
 - ii. obtain from the audit firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff;
 - iii. meet with the external auditor, 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 auditor may wish to raise;
 - iv. ensure that the external auditor's provision of non-audit services does not impair its independence or objectivity. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee may wish to consider:
 - (a) whether the skills and experience of the audit firm make it a suitable supplier of non-audit services;

- (b) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services; and
 - (c) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm;
- c. to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences, and ensure co-ordination where more than one audit firm are involved;
- d. to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, an 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;
- e. to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

- f. to monitor integrity of the Company's financial statements, 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 reviewing these reports and accounts before submission to the Board, the Committee shall 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 assumptions and any qualifications;
 - v. compliance with accounting standards; and
 - vi. compliance with the Listing Rules and legal requirements in relation to financial reporting;
- g. in regard to f. above:
 - i. members of the Committee shall liaise with the Board, senior management and management in-charge and the Committee shall meet, at least twice a year, with the external auditor; and
 - ii. the Committee shall consider any significant or unusual items that are, or may need to be, reflected in the reports 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 auditor;

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

- h. to review the financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, to review the risk management and internal control systems of the Company;
- i. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- j. 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;
- k. where an internal audit function exists, 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 Group, and to review and monitor its effectiveness;
- l. to review the Group's financial and accounting policies and practices;
- m. to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and management's response;
- n. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- o. to report to the Board on the matters set out in these terms of reference ;
- p. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal controls or other matters. The audit committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- q. to act as the key representative body for overseeing the Company's relations with the external auditor;
- r. to consider other matters, as defined by the Board; and

Attendance at general meetings

- s. The chairman of the Committee or his nominee shall attend the Company's annual general meetings and special general meetings (if appropriate) and be prepared to answer questions raised by shareholders in relation to their duties.

Reporting procedures and contents

22. The chairman of the Committee shall report formally to the Board after each meeting on all matters reviewed within its duties and responsibilities. The Committee shall identify and make recommendations to the Board on any matters where action or improvement is needed.
23. Reports to the Board should cover, as appropriate, the work and findings of the Committee in the following areas:-
 - a. financial and other reporting;
 - b. internal controls and risk management;
 - c. audits; and
 - d. other duties and responsibilities.
24. Disclosure in the Corporate Governance Report in the annual report should include:-
 - a. the role, function and composition of the Committee and whether it comprises independent non-executive directors, non-executive directors and executive directors (including their names and identifying the chairman of the Committee);
 - b. the number of the Committee meetings held during the year and the record of attendance of members, by name, at meetings held during the year;
 - c. a report on how the Committee met its responsibilities in its review of the quarterly (if relevant), half-yearly and annual results and internal control system, and its other duties.
 - d. details of non-compliance with rule 3.21 of the Listing Rules (if any) and an explanation of the remedial steps taken by the Company to address non-compliance;
 - e. a statement on the independence of the Committee; and
 - f. a statement explaining recommendation of the Committee and the reasons why the Board has taken a different view where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

Others

25. These terms of reference are available on the HKExnews website of The Stock Exchange of Hong Kong Limited and the website of the Company and available on reasonable request made to the company secretary at any reasonable time.