

# Zhejiang Shibao Company Limited

(the “Company”)

## Terms of Reference of Audit Committee

### 1. Membership

- 1.1 Members of the audit committee (the “Committee”) shall be appointed by the board of directors (the “Board”) of the Company. The Committee shall have at least three (3) directors.
- 1.2 A member of the Committee shall be appointed amongst non-executive directors of which the majority of them must be independent non-executive directors (the “INEDs”). Also, at least one of the INEDs shall have appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules of Hong Kong Stock Exchange.
- 1.3 The chairman of the Committee shall be acted by an INED who shall be appointed by the Board.
- 1.4 A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of one (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.

- 1.5 The company secretary of the Company shall serve as the secretary of the Committee.

### 2. Authority

- 2.1 The Committee is authorized by the Board to review all the Company’s accounts, books and records.
- 2.2 The Committee shall have the right to require the Company’s management to furnish all necessary information in order to discharge its duties.
- 2.3 The Committee shall have the right to consult external independent professional opinion at the Company’s expense in order to discharge its duties.
- 2.4 The Committee shall be provided with sufficient resources to discharge its duties.

### 3. Duties

The duty of the Committee is to assist the Board to carry out its duties through reviewing and monitoring the financial reports and, risk management and internal control systems of the Company. The Committee shall have the following duties, rights and discretion:

## Relationship with the Company's auditors

- 3.1 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.
- 3.2 To act as the key representative body for overseeing the Company's relations with the external auditor.
- 3.3 To review and monitor the external auditor's independence and objectivity in accordance with applicable standard. The Committee shall:
  - (a) consider all relationships between the Company and the audit firm (including the provision of non-audit services);
  - (b) seek from the external auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff; and
  - (c) to meet with the external auditors at least once a year, 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 auditors may wish to raise.
- 3.4 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 shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.
- 3.5 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 shall report to the Board, identifying and making recommendations on any matters where action or improvement is needed.
- 3.6 The Committee would normally be expected to ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of 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 the non-audit services;
  - (b) whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;
  - (c) the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm; and
  - (d) the criteria which govern the compensation of the individuals performing the audit.

### Review of the Company's financial information

3.7 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 judgements 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:

- (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 of Hong Kong Stock Exchange and other legal requirements in relation to financial reporting.

3.8 Regarding the preparing of reports and accounts as stated in paragraph 3.7:

- (a) Committee members must liaise with the Board, senior management, and the person appointed as the Company's qualified accountant;
- (b) the Committee must meet, at least twice a year, with the external auditors; and
- (c) the Committee shall 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 qualified accountant, compliance officer or auditors.

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

3.9 To review the Company's financial controls, internal control and risk management systems.

3.10 To discuss with the Company's management the risk management and internal control systems and ensure that management has discharged its duty to have effective systems. This discussion should include the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

3.11 To consider any major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response.

3.12 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.

3.13 To review the group's financial and accounting policies and practices.

- 3.14 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.
- 3.15 To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- 3.16 To report to the Board on all relevant matters in relation to the Committee's duties.
- 3.17 To review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action.
- 3.18 To study other topics as defined by the Board.

#### **4. Committee Meeting**

- 4.1 The Committee shall meet at least twice a year. The Company's external auditors may request a meeting be held if they consider necessary.
- 4.2 Notice of at least seven (7) days shall be given for any meeting, unless such notification is waived by all members of the Committee. Notwithstanding the notification period, the attendance of one member of the Committee at the meeting would deem the required notification requirement be waived by that member. If the follow up meeting takes place within seven (7) days after the meeting, then no notification is required for such follow up meeting.
- 4.3 The necessary quorum for the Committee meeting to resolve matters shall be any two members of which one of them must be an INED.
- 4.4 The resolution of the Committee shall be passed by majority votes and can be passed by way of written resolution signed by all members in writing. Meeting can be held through attendance in person, via telephone conference or via video conference.
- 4.5 Complete records of all Committee meetings shall be kept by the Committee secretary. Draft and final versions of minutes of the Committee meetings shall be sent to all Committee members for their comment and records within a reasonable time after the meeting.

#### **5. Publication of this Terms of Reference**

- 5.1 This Terms of Reference will be posted on the websites of the Company and Hong Kong Stock Exchange.