
GUOAN INTERNATIONAL LIMITED
TERMS OF REFERENCE OF AUDIT COMMITTEE

1 Purpose of the Audit Committee (the “Committee”)

- 1.1 To assist the Board of Directors (the “Board”) of Guoan International Limited (the “Company”) in reviewing the effectiveness of its financial reporting process and the system of internal control and in overseeing the audit process and performing other duties and responsibilities as assigned by the Board, in each case in accordance with the terms of reference herein.

2 Authority

- 2.1 The Committee shall have the following authority within its terms of reference:
- 2.1.1 Obtain advice and assistance from, at the Company’s expense, outside legal, accounting or other consultants to advise the Committee if it considers the same necessary for it to perform its duties; and
- 2.1.2 Seek the relevant information it requires from the management and employees for performing its duties.

3 Composition

- 3.1 The Committee shall comprise a minimum of three members and all members must be non-executive directors (“NEDs”), with the majority being independent non-executive directors (“INEDs”) of the Company. INEDs shall meet the independence requirements stated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).
- 3.2 At least one of the INEDs must have appropriate professional qualifications or accounting or related financial management expertise, whom is expected to have, through experience as a public accountant or auditor or as a chief financial officer, controller or principal accounting officer of a public company or through performance of similar functions, experience with internal controls and in preparing or auditing comparable financial statements or experience in reviewing or analysing audited financial statements of public companies.
- 3.3 A former partner of the Company’s auditors shall be prohibited from acting as a member of the Committee for a period of one year from the date of his ceasing:
- 3.3.1 to be a partner of the firm; or
- 3.3.2 to have any financial interest in the firm,
- whichever is later.
- 3.4 The Chairman of the Committee shall be appointed by the Board and shall be an INED.
- 3.5 The Chairman of the Committee shall help to ensure that the interests of all shareholders, and not only the interests of a particular faction or group, are indeed taken into account by the Committee and that the relevant issues are subjected to objective and dispassionate consideration by the Committee. The Chairman shall also ensure all members are properly briefed on issues arising at Committee meetings.
- 3.6 Members of the Committee shall be recommended and appointed by the Board, in consultation with the Chairman of the Committee. Each member shall hold office until cessation of his/her appointment as decided by the Board.
- 3.7 Other than the members of the Committee, any member of the Board of Directors shall be eligible to attend the Committee meetings but shall have no voting rights during the meetings. The Committee may also invite other members of management, external and internal auditors or others to attend meetings as and when necessary who shall have no voting rights.

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- 3.8 In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

4 Duties and Responsibilities

The Committee will carry out the following duties and responsibilities:

4.1 Financial Reporting

The Committee shall:

- 4.1.1 review and monitor integrity of the Company's financial statements, annual and interim reports and accounts and, if prepared for publication, quarterly reports, and review significant financial reporting judgements contained therein, before submission to the Board, focusing particularly on:-

- (a) any changes in accounting policies and practices;
- (b) major judgemental areas;
- (c) significant adjustments resulting from the audit;
- (d) the going concern assumption and any qualifications;
- (e) compliance with accounting standards; and
- (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;

- 4.1.2 with regard to paragraph 4.1.1 above:

- (a) members of the Committee should liaise with the Board and the Company's senior management, and the Committee must meet, at least twice a year, with the Company's auditors; and
- (b) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and 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; and

- 4.1.3 review the Group's financial and accounting policies and practices.

4.2 Internal Controls and Risk Management Systems

The Committee shall:

- 4.2.1 keep under review and make recommendations to the Board on the effectiveness of the Company's financial controls, internal controls and risk management systems;

- 4.2.2 discuss with management the system of internal controls including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function and make appropriate recommendations to the Board to ensure implementation of an effective internal control system;

- 4.2.3 consider major investigation findings on internal control matters as delegated by the Board or initiated by the Committee and management responses thereto; and

- 4.2.4 review 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.

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4.3 External Audit

The Committee shall:

- 4.3.1 review the relationship with the external auditors which shall include (but not be limited to) the following:
- (a) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors;
 - (b) to approve the external auditors' remuneration, whether fees for audit or non-audit services and the levels of fees that are appropriate to enable an adequate audit to be conducted;
 - (c) to approve the external auditors' terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit; and
 - (d) to be primarily responsible for any questions concerning the resignation or dismissal of the external auditors;
- 4.3.2 review the qualifications of the external auditors as well as monitor their independence and objectivity in accordance with applicable standards;
- 4.3.3 develop and implement policies on engaging the external auditors, including any entity that is under the 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, 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;
- 4.3.4 review and monitor the performance of the external auditors and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences;
- 4.3.5 meet with the external auditors at least twice a year to discuss any issues arising from the audit;
- 4.3.6 review the findings of the audit with the external auditors, including the management letter, any material queries raised by the auditors to management about the accounting records, financial accounts or systems of control, and management's response to the auditors' findings and recommendations;
- 4.3.7 discuss and review with the Board so as to ensure a timely response to the issues raised in the external auditors' management letter; and
- 4.3.8 act as the key representative body for overseeing the Company's relations with the external auditors.

4.4 Internal Audit

Where an internal audit function exists, the Committee shall:

- 4.4.1 review and monitor the effectiveness of the internal audit function;
- 4.4.2 ensure co-ordination between the internal and external auditors;
- 4.4.3 ensure that the internal audit function is adequately resourced and has appropriate standing within the Company to enable it to perform its function;
- 4.4.4 review with management and the internal auditors, the internal audit charter and annual internal audit plans;

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4.4.5 meet with the internal auditors at least once a year to discuss any issues arising from the audit (including internal audit) performed;

4.4.6 review promptly reports from the internal auditors; and

4.4.7 make recommendations to the Board on the appointment and removal of the internal auditors as well as their remuneration.

4.5 Others

4.5.1 The Chairman of the Committee or, in his/her absence, another member of the Committee or failing this, his/her appointed delegate as invited by the Chairman of the Board should attend annual general meetings to answer any questions from the shareholders.

4.5.2 The Committee shall consider other topics, as defined by the Board from time to time.

5 Secretary

5.1 The Company Secretary or any member elected by the Committee members shall act as the Secretary of the Committee (the "Secretary").

6 Quorum and Proceedings

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

6.2 Any members of the Committee or other attendees by invitation may participate in a meeting of the Committee by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting are capable of hearing each other.

6.3 The meetings and proceedings of the Committee shall be subject to the same provisions contained in the Company's Articles of Association and the Board's policies and proceedings (in so far as the same are not in conflict with the provisions contained in the Articles of Association) for regulating the meetings and proceedings of the Board so far as the same are applicable hereto and are not replaced by or contradict any regulations contained herein.

6.4 A resolution 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 and may consist of several documents in like form each signed by one or more of the members of the Committee. An electronic or facsimile message sent by a member of the Committee shall be deemed to be a document signed by him/her for the purposes of this paragraph provided that a manually signed copy thereof shall be produced afterwards.

7 Meetings

7.1 The Committee shall meet at least two times a year at appropriate intervals. At the beginning of a financial year, the Committee shall determine the number of meetings to be held for the year. Additional meetings may be convened as required.

7.2 When members of the Committee become aware of any dealings in which they have an interest, they should always declare their interest and should not vote during the meeting, and/or they should withdraw from the discussion.

7.3 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend, no later than 3 days before the date of the meeting or such other period of notice as reasonably practicable. Supporting papers shall be sent to Committee members and other attendees as appropriate, no later than 1 day before the meeting or within a reasonably practicable period of time prior to the meeting.

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- 7.4 The Secretary shall record the names of those present and in attendance of each Committee meeting as well as fully minute the proceedings and resolutions of all meetings of the Committee including the matters considered by the Committee and decisions reached, including any concerns raised by the Committee members or dissenting views expressed. The Secretary shall also ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 7.5 Draft and final minutes shall be circulated to all members of the Committee for their comment and records respectively, within a reasonable time after the meeting.

8 Reporting Procedures

- 8.1 The Secretary shall keep and circulate the minutes of the meetings of the Committee to all members of the Board.
- 8.2 The Committee shall report to the Board on the matters set out in these Terms of Reference and the Code Provisions as and when necessary, and shall promptly report back to the Board on its decisions and recommendations.

9 General

- 9.1 The Committee shall review and assess the adequacy of these Terms of Reference annually to ensure they are operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 9.2 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
- 9.3 The Committee should be provided with sufficient resources to perform its duties.
- 9.4 The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the websites of the Company and The Stock Exchange of Hong Kong Limited.