

SAFETY GODOWN CO LTD

(Incorporated in Hong Kong with limited liability)

(Stock code: 237)

TERMS OF REFERENCE OF AUDIT COMMITTEE

(revised on 21st June 2017)

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Terms of Reference of Audit Committee (revised on 21st June 2017)

1. *Constitution*

The Audit Committee (“the Committee”) was established pursuant to a resolution passed by the board of directors of SAFETY GODOWN CO LTD (“the Company”).

2. *Membership*

The Committee members shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members. The majority of the Audit Committee member should be Independent Non-Executive Directors, with at least one of whom has appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.

3. *Chairman*

The Chairman of the Committee shall be appointed by the Board from amongst the independent non-executive directors.

4. *Secretary*

The company secretary shall be the secretary of the Committee. The secretary of the Committee or in his absence, his representative or any one member, shall be the secretary of the meetings of the Committee.

5. *Quorum*

The quorum of a meeting of the Committee shall be two members.

6. *Attendance at meetings*

Attendees shall normally include Committee’s members, representative of the finance department, representative of the external auditors and those with meaningful input to the Committee’s activities.

7. *Frequency of meetings*

Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

8. *Notice of meetings*

Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any of its members.

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 to any other person required to attend no fewer than 5 working days prior to the date of the meeting.

The documents tabled before the meeting of the Committee shall be sent to Committee members and to other attendees as appropriate, at least 3 days before the date of the meeting.

9. *Minutes of meetings*

Draft and final versions of minutes of the Committee meetings shall be sent to all Committee members for their comments and records within a reasonable time after the meeting.

Full minutes of the Committee meetings shall be kept by the Company Secretary and shall be available for inspection by any member of the Committee or Director at any reasonable time on reasonable notice.

The secretary or his representative shall circulate the minutes of meetings and reports of the Committee to all members of the Board.

10. *Duties*

The duties of the Committee shall be:

Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment 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;

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- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) 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 should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) to act as the key representative body for overseeing the Company's relations with the external auditor;

Review of financial information of the Company

- (e) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and to review significant financial reporting judgments 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 audit;
 - (iv) the going concern assumptions and qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (f) Regarding (e) above:
 - (i) members of Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors; and

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- (ii) the Committee should 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 auditors;

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

- (g) to review the Company's financial controls, risk management and internal control systems;
- (h) 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;
- (i) 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;
- (j) 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 its effectiveness;
- (k) to review the group's financial and accounting policies and practices;
- (l) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of controls and management's response;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to report to the Board on the matters in provision of terms of reference of the Committee;

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- (o) to consider other topics, as defined by the Board; and

- (p) to review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters; and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

11. Authority

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.