

**China Mengniu Dairy Company Limited (the “Company”)  
Audit Committee Terms of Reference**

**1 Constitution**

The board of directors of the Company (the “**Board**”) hereby constitutes and establishes an audit committee (the “**Audit Committee**”) with authority, responsibility and specific duties as described below.

**2 Membership**

The Audit Committee shall be appointed by the Board and shall consist of not less than three (3) members comprising non-executive directors only.

- 2.1 The majority of the members of the Audit Committee shall be independent non-executive directors and at least one (1) of whom shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
- 2.2 The members of the Audit Committee shall appoint its chairman (the “**Chairman**”) who must be an independent non-executive director. A quorum necessary for transaction of business shall be two (2) members, one (1) of whom shall be an independent non-executive director.
- 2.3 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of two (2) years from 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 later.

**3 Secretary**

The secretary of the Audit Committee (the “**Secretary**”) shall be the company secretary of the Company or any other person designated as such by the Audit Committee from time to time.

**4 Authority**

The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate as requested by members of the Audit Committee. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice as necessary to assist the Audit

Committee and shall be provided by the Company with sufficient resources to perform its duties.

## **5 Responsibility**

- 5.1 The function of the Audit Committee is to assist the Board by providing an independent review and supervision of the effectiveness of the financial reporting process, internal control and risk management system of the Company, overseeing the audit process and performing other duties and responsibilities as assigned by the Board or as required by the Listing Rules from time to time.
- 5.2 The Audit Committee should serve as a focal point for communication between other directors, the external auditors, and the management as regards their duties relating to financial and other reporting, internal controls, and the audits.

## **6 Duties**

The duties of the Audit Committee include:

- 6.1 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. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Audit Committee should ensure the Company includes in its corporate governance report a detailed explanation of the Audit Committee's view and recommendations and the reasons for the Board to have taken a different view;
- 6.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 6.3 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 Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- 6.4 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 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;
  - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- 6.5 regarding paragraph 6.4 above:-
- (a) members of the Audit Committee should liaise with the Board and the senior management of the Company and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
  - (b) the Audit 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.
- 6.6 to review the Company's financial controls, risk management and internal control systems;
- 6.7 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;
- 6.8 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;
- 6.9 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 its effectiveness;
- 6.10 to review the financial and accounting policies and practices of the Company and its subsidiaries;
- 6.11 to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 6.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- 6.13 to report to the Board on the matters set out in and relating to code provision C3.3 of the Corporate Governance Code (the “Code”) contained in Appendix 14 of the Listing Rules (as amended from time to time);
- 6.14 to ensure that there are, and 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. 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;
- 6.15 to act as the key representative body for overseeing the Company’s relations with the external auditor;
- 6.16 to prepare a summary of its work during the year for inclusion in the Company's corporate governance report (including a report on how the Audit Committee met its responsibilities in its review of the Company’s quarterly (if relevant), half-yearly and annual results and internal control system and its other duties under the Code; details of the Company's non-compliance with Rule 3.21 of the Listing Rules (if any) and remedial steps taken by the Company to address such non-compliance);
- 6.17 to establish a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company;
- 6.18 to report back to the Board on the Audit Committee’s decisions, recommendations or findings, (unless there are legal or regulatory restrictions on its ability to do so). Such report should not prejudice the arrangements, investigations and actions as referred to in paragraph 6.14 or the whistleblowing policy and system as referred to in paragraph 6.17; and
- 6.19 to consider other topics, as defined by the Board from time to time.

## **7 Frequency and proceedings of meetings**

- 7.1 The Audit Committee shall meet at least twice a year. Additional meetings shall be held as the work of the Audit Committee or circumstances require.
- 7.2 The Chairman may convene additional meetings at his discretion. The external auditors may also request a meeting if they consider it is necessary.
- 7.3 Proceedings of meetings of the Audit Committee shall be governed by the provisions of the Company’s Articles of Association.

## **8 Attendance**

- 8.1 As necessary or desirable, the Chairman may request that members of management and representatives of the external auditors be present at meeting of the Audit Committee. However, at least once a year the Audit Committee shall meet with the external auditors without management members present.

8.2 Meetings can be held by way of such telephonic, electronic or other communication facilities that permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously.

## **9 Minutes**

9.1 Full minutes of the Audit Committee meetings shall be kept by the Secretary.

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

## **10 General**

10.1 The Audit Committee should make available these terms of reference, explaining its role and the authority delegated to it by the Board, by including them on the website of The Stock Exchange of Hong Kong Limited and the website of the Company.

10.2 The Chairman (in his absence, another member of the Audit Committee) shall make himself available to attend the annual general meetings of the Company to answer questions thereat.

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