



玖龍紙業(控股)有限公司

NINE DRAGONS PAPER (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(the "Company")

(Stock Code: 2689)

TERMS OF REFERENCE - AUDIT COMMITTEE

1. Membership

- 1.1 The Audit Committee shall consist of at least three directors appointed by the board of directors (the "Board") of the Company.
- 1.2 The majority of the members of the Audit Committee (the "Members") shall be independent non-executive directors ("Independent Non-executive Director(s)"), at least one of whom has to be an Independent Non-executive Director with appropriate professional qualifications or accounting or related financial management expertise.
- 1.3 The Board shall nominate one of the members who shall be an Independent Non-executive Director as the Chairman of the Audit Committee.
- 1.4 A former partner of the existing auditing firm of the Company is prohibited from acting as a Member for a period of one (1) year commencing on the later of (a) the date of his ceasing to be a partner of the firm; and (b) the date of his ceasing to have any financial interest in the firm.

2. Secretary

- 2.1 The company secretary of the Company shall act as the secretary (the "Secretary") of the Audit Committee.
- 2.2 The Audit Committee may, from time to time, appoint other qualified and experienced person to be the Secretary of the Audit Committee.

3. Meeting

- 3.1 The Audit Committee shall meet at least twice every year. Additional meetings shall be held as the work of the Audit Committee demands. The Chairman of the Audit Committee may convene additional meetings at his discretion.



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- 3.2 Notice of any Meetings has to be given at least 3 days prior to any such Meeting being held, unless all Members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a Meeting by a Member shall be deemed waiver of the requisite length of notice by the Member. Notice of any adjourned Meetings is not required if adjournment is for less than 3 days.
- 3.3 The quorum of a meeting shall be two members of the Audit Committee and one of them must be an Independence Non-Executive Director.
- 3.4 Meetings can either be held in person or through live electronic means of communication such as teleconference or videoconference.
- 3.5 Resolutions of the Audit Committee shall be passed by a majority of votes.
- 3.6 A resolution in writing signed by all the Members of the Audit Committee shall be as effect for all purposes as a resolution of the Audit Committee passed at a meeting duly convened, held and constituted.
- 3.7 Full minutes shall be kept by the Secretary of the Audit Committee. Draft and final versions of minutes shall be circulated to all members for their comment and records respectively, in both cases within a reasonable period of time after the Meeting. Such minutes shall be open for Directors' inspection.

4. Attendance at Meetings

The Audit Committee may invite such other persons (e.g. the CEO, senior management and external audit engagement partner) to its meetings as it deems necessary. Other Board members shall also have the right of attendance.

5. Annual General Meeting

The Chairman of the Audit Committee or in his/her absence, another Member (who must be an independent non-executive Director) of the Audit Committee, shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Audit Committee's activities and their



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responsibilities.

6. Duties

The duties of the Audit Committee shall include the following aspects:

Relationship with the Company's auditor

- 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;
- 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 should 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 act as the key representative body for overseeing the Company's relations with the external auditor;

Review of the Company's financial information

- 6.5 to monitor integrity of the Company's financial statements and 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 should focus particularly on: –



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- (i) any changes in accounting policies and practices;
- (ii) major judgmental areas;
- (iii) significant adjustments resulting from audit;
- (iv) the going concern assumptions and any qualifications;
- (v) compliance with accounting standards; and
- (vi) compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;

6.6 for the purposes of 6.5 above:-

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

- 6.7 to review the Company's controls, internal control and risk management systems;
- 6.8 to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. 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;
- 6.9 to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;



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- 6.10 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;
- 6.11 to review the Group's financial and accounting policies and practices;
- 6.12 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;
- 6.13 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.14 to 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 Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- 6.15 to review the Company's compliance with the Code and disclosure in the Corporate Governance report; and
- 6.16 to consider other topics, as defined by the Board.

7. Reporting Duty

The Audit Committee shall report to the Board on a regular basis.

8. Authority

- 8.1 The Audit Committee shall report directly to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).



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- 8.2 The Audit Committee is authorized to inspect all accounts, books and records of the Company and the Audit Committee shall have the right to require the management of the Company to furnish all information requested by the Audit Committee as may be required for the purposes of discharging its duties.
- 8.3 The Audit Committee is authorized to obtain external legal and other independent professional advice and to secure the assistance from external parties with relevant experience and expertise where it considers necessary. The Audit Committee shall have the sole authority to approve all reasonable related fees and terms of engagement.
- 8.4 The Audit Committee shall be provided with sufficient resources to discharge its duties.

27 March 2012