



南海控股有限公司*
NAN HAI CORPORATION LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 680)

Terms of Reference of Audit Committee

Constitution

1. The Board of Directors (the “Board”) of Nan Hai Corporation Limited (the “Company”) has established an audit committee (the “Committee”) for the compliance of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

Membership

2. All members of the Committee shall be appointed by the Board from the non-executive directors of the Company and shall consist of a minimum of three members (at least one of them is an independent non-executive director having an appropriate professional qualifications in accounting or related financial management as per the Listing Rules). The majority of the Committee shall be independent non-executive directors. A quorum shall be two members.
3. The chairman of the Committee shall be appointed by the Board, who shall be an independent non-executive director.

Attendance at Meetings

4. All other Board members shall have the right of attendance to the meeting of the Committee, but shall not have the right to vote.
5. The company secretary of the Company shall be the secretary of the Committee (or any other person to be appointed by the chairman of the Committee in the event that the company secretary of the Company is absent).

Frequency of Meetings

6. Meetings shall be held not less than twice a year.

Form of Meeting

7. Any member of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities that permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously.

Authority

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

** For identification purpose only*

10. The Committee shall have the power as follows:
- (a) to seek any information from any employee of the Company and its subsidiaries (together, the “Group”) and any professional advisers to require any of them to supply information and address to the enquiries raised and to attend to the Committee meetings;
 - (b) to monitor whether the Group’s management has complied with policies set out by the Board or with any applicable law, regulation and rule (including the Listing Rules);
 - (c) to investigate any suspected fraudulent acts, and to request the management to make in-depth investigation and report all findings.

Duties

11. The duties of the Committee shall include:

Relationship with the Company’s auditors

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (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 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;

Review of the Company’s financial information

- (d) 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 Committee should focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (e) Regarding (d) above:
 - (i) members of the 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
 - (ii) the 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

- (f) to review the Company’s financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;

- (g) 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;
- (h) 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;
- (i) 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;
- (j) to review the group's financial and accounting policies and practices;
- (k) 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;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters in the provision of the Corporate Governance Code and Corporate Governance Report under the Listing Rules;
- (n) to consider other topics, as defined by the Board;
- (o) 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 Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor.

Circulation of Minutes

12. The secretary of the Committee shall circulate the minutes of meetings of the Committee to all members of the Board.