

# SHANGHAI FOREST CABIN COSMETICS GROUP CO., LTD.

## TERMS OF REFERENCE FOR THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

### CHAPTER I GENERAL PROVISIONS

**Article 1** In order to strengthen the decision-making function of the board of directors of Shanghai Forest Cabin Cosmetics Group Co., Ltd. (hereinafter referred to as the “Company”), conduct pre-audit and professional audit, ensure the effective supervision over the senior management by the board of directors, and further improve the corporate governance structure, these terms of reference are formulated in accordance with the Company Law of the People’s Republic of China (hereinafter referred to as the “Company Law”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Hong Kong Listing Rules”), the Articles of Association of Shanghai Forest Cabin Cosmetics Group Co., Ltd. (hereinafter referred to as the “Articles of Association”) and other relevant regulations.

**Article 2** The Audit Committee of the board of directors is a specialized working body established by the board of directors. It is primarily responsible for the communication, supervision and verification of the Company’s internal and external audits.

The internal audit department established by the Company shall be accountable to the Audit Committee and report its work to the Audit Committee.

**Article 3** The provisions of the Company Law, the Articles of Association and the Hong Kong Listing Rules in relation to the obligations of the directors shall apply to members of the Audit Committee.

### CHAPTER II COMPOSITION

**Article 4** The Audit Committee shall comprise three directors, and all of them shall be non-executive directors. The majority of the non-executive directors shall be independent non-executive directors with at least one of them shall be an accounting professional and meet the requirements of the Hong Kong Listing Rules for independent non-executive directors with appropriate professional qualifications or appropriate accounting or relevant financial management expertise, and shall not have any relationship with the Company that may affect his/her independent and objective judgment. Employee representatives among the members of the board of directors of the Company may become members of the Audit Committee.

**Article 5** Members of the Audit Committee shall be nominated by the chairman of the board of directors, more than half of the independent non-executive directors, or more than one-third of all directors, and shall be elected by the board of directors. A former partner of the external audit department currently responsible for auditing the Company’s accounts shall not serve as a member of the Audit Committee of the Company within two years from the later of the following dates: (1) the date on which he/she ceases to be a partner of the external audit department; or (2) the date on which he/she no longer has a financial interest in the external audit department.

**Article 6** The Audit Committee shall have one chairperson acting as the convener who shall be an independent non-executive director, responsible for presiding over the work of the Committee. The chairperson shall be elected by the members of the Audit Committee among the members who are the independent non-executive director and appointed upon approval by the board of directors.

**Article 7** The terms of office of the members of the Audit Committee shall be consistent with those of the directors, and a member may be re-elected upon expiration of his/her terms. If any member ceases to serve as a director of the Company during the term, he/she shall cease to be the member automatically, and the board of directors shall then replenish the membership in accordance with the provisions of Articles 4 to 6 above.

### **CHAPTER III DUTIES AND AUTHORITIES**

**Article 8** The primary duties and authorities of the Audit Committee shall be as follows:

- (I) to supervise and assess the external audit work, propose the appointment, re-appointment and dismissal or replacement of the external audit department, approve the remuneration and terms of engagement of the external audit department, deal with any issues related to the resignation or dismissal of the external audit department, and supervise the practice of the external audit department; when the Company engages or replaces an external accounting firms, the Audit Committee shall form a review opinion and make a recommendation to the board of directors before the board of directors can consider and review the relevant resolutions; to develop and implement the Company's policies on the external auditors, and the audit committee shall report and make recommendations to the board of directors on any actions to be taken or improvements to be made;
- (II) to supervise and assess the internal audit work, and supervise the formulation and implementation of the Company's internal audit system and accounting policies;
- (III) to review and monitor the independence and objectiveness of the external audit department and the effectiveness of its audit procedures in accordance with applicable standards; the Audit Committee shall discuss with the external audit department the nature and scope of the audit and the relevant reporting responsibilities before the audit work commences; when assessing the independence of the external audit department, it shall consider all relationships (including non-audit services) between the Company and the audit department and to obtain from the external audit department its policies and procedures for maintaining independence on an annual basis to monitor its compliance (including the rotation of audit partners and members), and communicate with the auditors regarding the audit fees, issues discovered during the audit and other matters it wishes to communicate at least once a year in the absence of management;

- (IV) to formulate and implement policies regarding the provision of non-audit services by the external audit department. For this purpose, the external audit department includes any institution that is under the same control, ownership or management with the audit firm or any institution that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the external audit department nationally or internationally. When evaluating the non-audit services provided by the external audit department, the Company shall consider the appropriateness of the department's qualifications and capabilities, the impact of the services on the independence and objectivity of the audit department, the content of the services, the fees, the degree of importance of the services to the audit department and the remuneration of relevant individuals. The Audit Committee shall report and make recommendations to the board of directors on any actions to be taken or improvements to be made;
- (V) to act as the key representative for communication between the Company and the external audit department and overseeing their relationship to ensure the coordination of the work of the internal audit function and the external audit department, to ensure that the internal audit function has sufficient resources to operate within the Company and has an appropriate status, and review and monitor its effectiveness; to be responsible for the communication on major issues between the internal audit and the external audit when necessary;
- (VI) to review the Company's financial information and its disclosure, as well as the financial and accounting policies and operations;
- (VII) to monitor the integrity of the Company's financial statements, annual reports and accounts, semi-annual reports and quarterly reports (if to be published), and review the major opinions on financial reporting contained in the statements and reports. Before submitting the relevant statements and reports to the board of directors, the Committee shall specifically review the following matters: (1) any changes in accounting policies and practices; (2) areas involving significant judgments; (3) significant adjustments arising from the audit; (4) the going-concern assumption of the enterprise and any qualified opinions; (5) compliance with accounting standards; and (6) compliance with the listing rules of the stock exchange where the shares of the Company are listed and legal requirements regarding financial reporting;
- (VIII) in relation to item (VII) above: (1) the members of the Committee shall communicate with the board of directors and senior management. The Committee shall meet with the Company's external audit department at least twice a year; and (2) the Committee shall consider any major or unusual matters reflected or to be reflected in such reports and accounts, and shall give due consideration to any matters raised by the Company's accounting and financial reporting staff, compliance officer or external audit department;
- (IX) to review the Company's internal control system; to review and evaluate the Company's financial monitoring, risk management and internal control system;

- (X) to discuss risk management and internal control systems with management to ensure that the management has fulfilled its responsibilities in establishing effective risk management and internal control systems. The discussion shall include whether the resources, staff qualifications and experience in the Company's accounting and financial reporting functions are sufficient, and whether the training courses received by the staff and the relevant budgets are adequate;
- (XI) to consider on its own initiative or as delegated by the board of directors the major investigation findings regarding the risk management and internal control matters and the responses of the management to such investigation findings;
- (XII) to examine any "Audit Letter" given by the external audit department to the management, any major queries raised by the audit department to the management regarding accounting records, financial accounts or monitoring systems, and the management's responses;
- (XIII) to review the Group's financial and accounting policies and practices;
- (XIV) to ensure that the board of directors will respond in a timely manner to the matters and major queries raised in any "Audit Letter" given by the external audit department to the management, as well as the management's responses;
- (XV) to examine and evaluate the Company's major related (connected) transactions (the definition of connected transactions is set out in the Hong Kong Listing Rules, as hereinafter referred to); to review the Company's internal systems, and organize audits of major related (connected) transactions;
- (XVI) to examine and review the Company's arrangements whereby the Company's employees can, in confidence, raise concerns about potential improprieties in financial reporting, internal control or other aspects. The Committee shall ensure that there are appropriate arrangements for the Company to conduct a fair and independent investigation of such matters and take appropriate actions;
- (XVII) to formulate a whistle-blowing policy and system to enable employees and those having dealings with the Company or its subsidiaries (such as customers and suppliers) to secretly and anonymously raise their concerns to the Committee about any potential improprieties regarding the Company or its subsidiaries;
- (XVIII) to formulate, review, approve and update (if applicable) policies and systems to promote and support anti-corruption laws and regulations;
- (XIX) to formulate and review the Company's corporate governance policies and practices, and make recommendations to the board of directors;

- (XX) to review and monitor the training and continuous professional development of directors and senior management;
- (XXI) to review and monitor the Company's policies and practices on compliance with laws and regulatory requirements;
- (XXII) to formulate, review and monitor code of conduct and compliance manual (if any) for employees and directors;
- (XXIII) to review the Company's compliance with the Corporate Governance Code set out in Appendix C1 to the Hong Kong Listing Rules (the "Corporate Governance Code") and the disclosures in the Corporate Governance Report set out in the annual report; to report to the board of directors on matters within the terms of reference of the Committee (including the decisions or recommendations made by the Committee);
- (XXIV) other duties and authorities as required by laws, administrative regulations, departmental rules, normative documents, the listing rules of the stock exchange where the shares of the Company are listed (including the relevant authorities and duties as specified in the relevant provisions of the Corporate Governance Code) as well as the Articles of Association and as delegated by the board of directors of the Company, and to study other issues as defined by the board of directors.

**Article 9** The Audit Committee shall be accountable to the board of directors. After considering the matters stipulated in the preceding article of these terms of reference, the Audit Committee shall form a meeting resolution and submit it with the relevant proposals to the board of directors of the Company for consideration and approval.

#### **CHAPTER IV DECISION-MAKING PROCEDURES**

**Article 10** The internal audit department of the Company shall be responsible for the preliminary preparatory works for the decision-making procedures of the Audit Committee and shall provide the following relevant written information of the Company:

- (I) relevant financial reports (including monthly financial position and other internal financial position), financial budget and decision and relevant information of the Company;
- (II) work reports of internal and external auditors;
- (III) external audit contracts and relevant work reports;
- (IV) disclosure of information by the Company to external parties;
- (V) audit reports on major related (connected) transactions of the Company;
- (VI) any other relevant matters.

**Article 11** The Audit Committee shall hold meetings to consider the reports submitted by the internal audit department of the Company, and submit relevant resolutions in writing to the board of directors for consideration with respect to:

- (I) evaluation on the performance of, and engagement and replacement of, the external auditors;
- (II) the effectiveness of the implementation of the internal audit system of the Company and the completeness and truthfulness of the financial reports of the Company;
- (III) whether the financial reports and other information disclosed by the Company give an objective and true view and whether the Company's significant related (connected) transactions are in compliance with relevant laws and regulations or relevant requirements of the stock exchange where the shares of the Company are listed;
- (IV) evaluation on the performance of the internal financial department and audit department of the Company, including the heads of such departments;
- (V) any such incidents including special investigation, litigation, fraud and non-compliance incidents with subject amount accounting for more than 10% of the latest audited net assets of the Company, which shall be reported to the Audit Committee. The Audit Committee shall report the same to the board of directors as appropriate;
- (VI) any other relevant matters.

## **CHAPTER V MEETING PROCEDURES**

**Article 12** Meetings of the Audit Committee are classified into regular meetings and extraordinary meetings. Regular meetings are convened at least twice a year and on a half-year basis. Extraordinary meetings are convened at the request of the members of the Audit Committee or the internal audit department of the Company.

A notice of regular meeting of the Audit Committee shall be given to all members five days prior to the meeting, and a notice of extraordinary meeting shall be given to all members three days prior to the meeting. The notice can be given at any time in the case of emergency.

**Article 13** Members of the Audit Committee may attend the meeting in person or appoint other members in writing to attend the meeting and exercise their voting rights on their behalf.

If a member of the Audit Committee authorizes another member to attend the meeting and exercise the voting rights on his/her behalf, he/she shall submit a power of attorney to the chairperson of the meeting, which shall specify the scope of authorization. The power of attorney shall be delivered to the chairperson of the meeting no later than the time of voting at the meeting.

**Article 14** If a member of the Audit Committee neither attends the meeting in person nor authorizes another member to attend the meeting on his/her behalf, he/she is deemed to be absent from such meeting.

If any member of the Audit Committee fails to attend two consecutive meetings, he/she is deemed to fail to duly perform his/her duties and powers, and the board of directors of the Company may revoke his/her membership.

**Article 15** The chairperson is responsible for convening and presiding over meetings, or where the chairperson is unable or fails to perform his/her duties, he/she may delegate another member to act on his/her behalf. Should the chairperson neither perform his/her duties nor designate another member to act on his/her behalf, any member may report the matter to the board of directors of the Company, which shall then designate a member to perform the chairperson's duties.

**Article 16** Meetings of the Audit Committee are held only when attended by more than two thirds of its members; each member has one vote; resolutions proposed at such meetings must be approved by a majority of all members.

Meetings of the Audit Committee may be convened in the form of written resolutions. A written proposal shall be served by facsimile, courier or by hand or by other means to all members. After the members have casted votes on the proposal, the original copies shall be returned to the Company for filing. A proposal signed by consenting members satisfying the number of votes required hereunder shall become an effective resolution of the Committee.

**Article 17** Voting of the Audit Committee shall be conducted either by a show of hands or by poll. Voting at an extraordinary meeting may be conducted by means of correspondence.

**Article 18** The internal audit department of the Company shall hold a meeting with the Audit Committee on a quarterly basis to report on the internal audit work and the issues found, and shall submit an internal audit report to the Audit Committee at least once a year. The person-in-charge of the internal audit department of the Company shall attend the meetings of the Audit Committee. The Audit Committee may invite other directors and senior management of the Company and any other relevant parties to attend its meetings where necessary, make a briefing or express opinion provided that non-members of the Audit Committee have no right to vote on any proposals.

**Article 19** If necessary, the Audit Committee may engage an intermediary to provide professional opinions for its decision-making, at the Company's expense.



**Article 20** The procedures for convening meetings of the Audit Committee, the voting methods, and the adoption of resolutions at such meetings shall comply with the provisions of relevant laws, administrative regulations, departmental rules, normative documents, the listing rules of the stock exchange where the shares of the Company are listed, the Articles of Association, and these terms of reference.

**Article 21** Minutes of the Audit Committee shall be kept, which shall record in sufficient detail the matters considered and resolutions passed at the meeting, including any doubts or objections raised by members. The draft and final version of the minutes shall be sent to all members of the Committee within a reasonable time after the meeting, with the draft for members to express their opinions and the final version for record. Each member shall review and confirm the minutes, and the members attending the meeting and the minute taker shall sign the minutes. Members present at the meeting shall have the right to request inclusion of explanations in the minutes regarding the views they expressed at the meeting. If a member of the Committee has any comments or objections regarding the minutes, he/she may choose not to sign but shall submit his/her written opinions to the secretary of the board of directors within the timeframe stipulated above. If the errors or omissions in the records are confirmed to be true, the secretary of the board of directors shall make corrections, and the members of the Committee shall sign the revised minutes.

The minutes of the Audit Committee are maintained as company records by the secretary of the board of directors of the Company for 10 years during the existence of the Company.

**Article 22** Resolutions passed and voting results at a meeting of the Audit Committee shall be reported in writing to the board of directors of the Company.

The Audit Committee shall, based on the internal audit report and relevant information submitted by the internal audit department, issue a written opinion for assessment of the effectiveness of the internal control of the Company and report the same to the board of directors. In the event that the board of directors disagrees with the opinions of the Audit Committee on the selection, appointment, resignation or removal of an external auditor, the Company shall include in the corporate governance report an explanatory statement of the Audit Committee on its recommendations and the reasons for the disagreement of the board of directors.

**Article 23** Members and any other persons present at a meeting shall keep all matters discussed at the meeting confidential and shall not disclose such information without authorization.

**Article 24** The chairperson of the Audit Committee, or in his/her absence, another member or his/her authorized representative, shall, if invited by the chairman of the board of directors, attend the annual general meeting of the Company and answer questions raised at the meeting.



**Article 25** The Audit Committee shall publish its terms of reference on the website of The Stock Exchange of Hong Kong Limited and the website of the Company to explain its role and the authority delegated by the board of directors.

**Article 26** The Audit Committee shall be provided with sufficient resources to perform its duties. The senior management of the Company shall provide support to the work of the Audit Committee and, the Audit Committee may engage intermediaries to provide independent professional advice for its decision-making where necessary with reasonable expenses incurred to be borne by the Company.

## **CHAPTER VI ABSTENTION FROM VOTING**

**Article 27** When a member of the Audit Committee has an interest of conflict, directly or indirectly, in respect of any matter discussed at the meeting, such member shall abstain from voting on the relevant proposals.

Where the number of members attending the meeting is less than the quorum specified in these terms of reference after the interested members abstain from voting, all members (including the interested members) shall resolve on procedural issues including submitting the proposal to the board of directors of the Company for consideration. Such proposal shall be considered by the board of directors of the Company.

## **CHAPTER VII SUPPLEMENTARY PROVISIONS**

**Article 28** These terms of reference and any amendments hereto have been considered and approved by the board of directors and shall take effect from the date of the initial public offering of H Shares of the Company and its listing on The Stock Exchange of Hong Kong Limited.

**Article 29** Matters not covered in these terms of reference shall be conducted in accordance with the provisions of the relevant laws and regulations of the PRC, the listing rules of the stock exchange where the shares of the Company are listed and the Articles of Association. In case of any conflict between these terms of reference and any laws and regulations promulgated by the PRC from time to time, the listing rules of the stock exchange where the shares of the Company are listed or the Articles of Association as amended through lawful procedures, the relevant laws and regulations of the PRC, the listing rules of the stock exchange where the shares of the Company are listed and the Articles of Association shall prevail. These terms of reference shall be revised forthwith and submitted to the board of directors for consideration and approval.

**Article 30** These terms of reference shall be interpreted by the board of directors of the Company.

**Shanghai Forest Cabin Cosmetics Group Co., Ltd.**