

MAOGEPING

BEAUTY

MAO GEPING COSMETICS CO., LTD.

毛戈平化妝品股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1318)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Set out below are the terms of reference (the “**Terms of Reference**”) of the audit committee (the “**Committee**”) of Mao Geping Cosmetics Co., Ltd. (the “**Company**”).

1. PURPOSE

- 1.1 The purpose of the Committee is to assist and advise the board (the “**Board**”) of directors of the Company (the “**Directors**”) in establishing formal and transparent arrangements to consider how the Board should apply financial reporting, risk management and internal control principles, and for maintaining an appropriate relationship with the Company’s auditors and for approving connected transactions.

2. COMPOSITION

- 2.1 The Committee shall comprise a minimum of three members consisting of non-executive Directors only and a majority of which must be independent non-executive Directors. Members of the Committee shall, in principle, be independent of the daily management and operations of the Company. The Committee must comprise of at least one independent non-executive Director who has 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**”) (as amended from time to time). Members of the Committee shall be nominated by the chairman of the Board, more than half of the independent Directors, or more than one-third of all the Directors, and shall be appointed by the Board. All members of the Committee must possess the professional knowledge and business experience necessary to fulfil the duties of the Committee.
- 2.2 The Board shall appoint one member of the Committee as the chairman (the “**Chairman**”), who must be an independent non-executive Director and an accounting professional, and shall be responsible for presiding over the work of the Committee.

- 2.3 The Board conducts regular evaluations of the independence and performance of the members of the Committee and may replace those who are no longer qualified to hold their positions when necessary.
- 2.4 The term of office for the members of the Committee is consistent with that of the Board for the same session. Members can be re-elected for consecutive terms upon term expiration. Where a member ceases to be a director of the Company during his/her term, he/she will automatically cease to serve as a member of the Committee, and the casual vacancy shall be filled by the person appointed by the Board in accordance with relevant provisions. A member of the Committee may submit a letter of resignation to the Board before the expiration of his/her term of office. The letter of resignation shall provide necessary explanations regarding the reasons for resignation and any matters that require the attention of the Board. Members of the Committee may be adjusted during their terms of office upon the proposal made by the chairman of the Board and the consideration and approval of the Board. If the number of committee members falls below the stipulated number due to resignation, dismissal, or other reasons, the Board will appoint new members as soon as possible.
- 2.5 A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of two years from the date of his ceasing: (i) to be a partner of the firm; or (ii) to have any financial interest in the firm, whichever is later.
- 2.6 The Committee shall establish an internal audit department as its daily operational office.

3. MEETINGS

- 3.1 Unless otherwise specified hereunder, the provisions contained in the Company's articles of association (the "**Articles**") (as amended from time to time) for regulating meetings and proceedings of Directors shall apply to the meetings and proceedings of the Committee.
- 3.2 Members of the Committee may attend meetings of the Committee either in person or through other electronic means of communication or in such other manner as the members may agree.
- 3.3 The Committee shall meet at least two times annually, or more frequently if circumstances require.
- 3.4 The Board, any member of the Committee and the external auditors may request an extraordinary meeting if they consider that one is necessary.

- 3.5 The chief financial officer of the Company and at least one representative of each of the internal auditors and the external auditors shall normally attend meetings. Other members of the Board shall also have the right of attendance. However, the Committee shall meet with the external auditors at least twice a year. At least once a year the Committee shall meet with the external and internal auditors without executive Directors present.
- 3.6 A member of the Committee may appoint an alternate to attend Committee meetings on their behalf. If an alternate attends a meeting and exercises the voting right, a power of attorney must be submitted. The power of attorney should be submitted no later than before the voting at the meeting.
- 3.7 A member of the Committee who neither attends the meeting in person nor appoints an alternate to attend the meeting on his or her behalf shall be deemed to have not attended the meeting. If a member of the Committee fails to attend two consecutive meetings, he or she shall be deemed as incapable of due performance of duties, and the Board may dismiss him or her from office.
- 3.8 Members of the internal audit department may attend a meeting of the Committee. If necessary, Directors and senior management of the Company or other persons in connection with the proposals may also be invited to attend the meeting to provide detailed information or express their opinions. Those who are not members of the Committee, however, do not have voting rights on the proposals.
- 3.9 When the Committee deems it necessary, it may engage the intermediaries to provide professional advice for its decision-making at the Company's expense.
- 3.10 The Chairman shall be responsible for leading the Committee, including scheduling meetings, preparing agendas and making regular reports to the Board.
- 3.11 A meeting of the Committee may be convened by any of its members.
- 3.12 A quorum shall be two members of the Committee.
- 3.13 Unless otherwise agreed by all the members of the Committee, notice of at least seven days shall be given for a regular meeting of the Committee. For all other meetings of the Committee, reasonable notice shall be given. The Chairman shall determine whether or not a meeting of the Committee is a regular meeting. In the case of notices given by phone, email or other convenient ways, if no written objections are received within two days from the date of issue of notice, the recipient shall be deemed to have received the notice of the meeting.

- 3.14 The agenda and accompanying supporting papers shall be sent to all members of the Committee and to other attendees as appropriate at least three days before the date of the meeting (or such other period as the members may agree).
- 3.15 Voting at meetings of the Committee shall be conducted by show of hands, by poll or by voting via communication.
- 3.16 Each member shall have one voting right. Subject to the Articles, questions arising at any meeting of the Committee shall be decided by a majority of votes, and in case of an equality of votes, the Chairman shall have a second or casting vote. Resolutions passed at and voting results of the meeting of Committee shall be reported to the Board of the Company in writing.
- 3.17 The members of the Committee shall appoint a secretary of the Committee (the “**Secretary**”) to take minutes. Members present at the meeting shall sign the minutes, and shall have the right to request that a certain explanatory record be included in the minutes regarding their statements made at the meeting. In the absence of the Secretary, his/her delegate(s) or any person elected by the members present at the meeting of the Committee, shall attend the meeting of the Committee and take minutes. Any such minutes shall be conclusive evidence of any such proceedings if they purport to be signed by the Chairman or the Secretary of the meeting or succeeding meeting.
- 3.18 Full minutes of meeting of the Committee shall be kept by the Secretary or any one of the joint company secretaries of the Company for at least ten years. They shall be open for inspection at any reasonable time on reasonable notice by any Director.
- 3.19 Minutes of meetings of the Committee and the record of individual attendance at such meetings shall be prepared by the Secretary which shall be sent to all members of the Committee within a reasonable time after the conclusion of any meeting of the Committee for their comment and records. For the purposes of recording attendance only, the attendance of an alternate of members of the Committee will not be counted as attendance by the relevant member of the Committee himself or herself. The minutes of meetings shall record details of the matters considered and decisions reached, including any concerns raised by Directors or dissenting views expressed.
- 3.20 Without prejudice to any requirement under laws, administrative regulations, the provisions of the China Securities Regulatory Commission(CSRC), the Listing Rules and the Articles, a resolution in writing signed by all of the members of the Committee (or their respective alternate) shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

4. ACCESS

- 4.1 The Committee shall have full access to management and may invite members of management or others to attend its meetings.
- 4.2 The Company should provide the Committee with sufficient resources to perform its duties, including but not limited to obtaining independent professional advice and assistance from internal or external legal, accounting or other advisors at the expense of the Company if necessary.

5. REPORTING PROCEDURES

- 5.1 The Committee shall evaluate and assess its effectiveness and the adequacy of these Terms of Reference from time to time and recommend any proposed changes to the Board.

The Committee shall report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements). If the Committee submit decisions or make recommendations to the Board on matters within the scope of its duties and responsibilities, and where the Board does not adopt such decisions or recommendations, the Company shall disclose such matters and fully explain the reason.

6. AUTHORITY

- 6.1 The authorities and responsibilities of the Committee shall include such responsibilities and authorities set out in laws, administrative regulations, the provisions of the CSRC, the Articles and relevant code provisions of the Corporate Governance Code (the “**CG Code**”) as contained in Appendix C1 to the Listing Rules (as amended from time to time).
- 6.2 The Committee is authorized by the Board to investigate any activity within these Terms of Reference. It is authorized to seek any information it requires from any employee and all employees will be directed to co-operate with any request made by the Committee. The Company shall provide the Committee with the means and measures to perform their duties, and engage professionals or agencies to handle daily operation including work liaison, organization of meetings, preparation of materials and documentation for the Committee. When the Committee is performing its duties, the management and relevant departments of the Company shall offer cooperation.

- 6.3 The Committee shall perform its duties in accordance with the Articles and these Terms of Reference, and shall act independently without any interference from other departments of the Company.
- 6.4 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the corporate governance report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

7. DUTIES

- 7.1 The Committee is a specialised committee established by the Board, primarily responsible for the communication with, supervision and verification of the internal and external audits of the Company. It is accountable to the Board and reports to the Board.
- 7.2 Without prejudice to any requirements under the laws, administrative regulations, provisions of the CSRC, the CG Code and the Articles, the duties of the Committee shall include the following:
- (a) 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;
 - (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 policies on engaging an external auditor to supply non-audit services. For this purpose, an "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 be responsible for making recommendations to the Board on the appointment and removal of the chief financial officer;
- (e) to monitor the integrity of the Company's annual reports, interim reports, and, if prepared for publication, quarterly reports, and to review the financial information, the internal control evaluation report and significant financial reporting judgements contained in them with written review opinions;
- (f) to monitor the integrity of the Company's financial statements and accounts, and review the financial information, the internal control evaluation report and significant judgments related to financial reporting;
- (g) regarding paragraphs (e) and (f) above, 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 assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (h) regarding paragraphs (e) and (f) 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 report 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;
- (i) to review the Company's financial controls, risk management and internal control systems;

- (j) 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 programs and budget of the Company's accounting and financial reporting function;
- (k) 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;
- (l) 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;
- (m) to review the Company and its subsidiaries' operating, financial and accounting policies and practices;
- (n) 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;
- (o) to ensure that the Board will provide a timely response to the issues raised by external auditor's management letter;
- (p) to report to the Board on the matters in the CG Code;
- (q) 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 and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (r) to establish a whistleblowing policy and system, as appropriate, for employees and those who deal with the Company or its subsidiaries (e.g. customers and suppliers) to raise concerns, in confidence and anonymity, about possible improprieties in any matter related to the Company or its subsidiaries;
- (s) to formulate, review, approve and update, at its discretion, policies and systems that promote and support anti-corruption laws and regulations;

- (t) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (u) to review continuing connected transactions of the Company and ensure compliance with terms approved by shareholders of the Company;
- (v) to propose to the Board changes in accounting policies, accounting estimates, or corrections of significant accounting errors for reasons other than changes in accounting standards;
- (w) to supervise the conduct of Directors and senior management in their performance of duties for the Company, and to propose the removal of any Director or senior management member who violates laws, administrative regulations, the Articles, or the resolutions of the shareholders' meeting;
- (x) to require Directors and senior management to make corrections if their conduct has damaged the interests of the Company;
- (y) if abnormal business conditions are discovered, investigations can be conducted; when necessary, professional institutions such as accounting firms or law firms may be hired to assist with work, with expenses borne by the Company;
- (z) to consider such other matters as the Board may from time to time determine; and
- (zz) other duties and powers as stipulated by the laws, administrative regulations, the provisions of the CSRC, the CG Code and the Articles.

7.3 In respect of any measures or improvements under Article 7.2 or as deemed necessary by the Committee, the Committee shall submit such matters to the Board for consideration only after obtaining a majority vote of all its members.

8. ANNUAL GENERAL MEETING

8.1 The Chairman or in his absence, another member of the Committee or failing this, his or her duly appointed delegate, shall attend the annual general meeting (the "AGM") of the Company and be prepared to respond to questions at the AGM on the Committee's work and responsibilities.