

# NOVO GROUP LTD.

Registration No. 198902648H  
(the "Company")  
(Incorporated in the Republic of Singapore)

## AUDIT COMMITTEE TERMS OF REFERENCE

### PURPOSE

1. The audit committee ("**AC**") is a committee established by the board of directors ("**Board**"). Its primary function is to assist the Board in fulfilling its oversight responsibilities by reviewing:
  - (a) the financial information provided by the Company to any governmental body or the public;
  - (b) the systems of internal controls that management and the Board have established;
  - (c) the audit and business processes to manage risks and safeguard the Company's assets and enhance shareholders' value; and
  - (d) the processes to manage compliance risk viz the risk of legal or regulatory sanctions, financial loss, or loss of reputation that the Company may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.
2. Subject to the regulations contained in the Companies Act, Chapter 50 (the "**Act**"), the Listing Manual of the Singapore Exchange Securities Trading Limited ("**Listing Manual**"), the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the Constitution of the Company and the guidelines set out in the Code of Corporate Governance 2012 (the "**Code**") issued by the Corporate Governance Committee, the procedures of the AC shall be regulated by the provisions of this Terms of Reference and as may be amended from time to time.

The meaning of all wordings in these terms of references shall refer to the Listing Manual and the Listing Rules. In the case of conflict between the Listing Rules and the Listing Manual, the Company shall comply with the more restrictive and stringent rule.

### COMPOSITION

3. The AC shall comprise at least three (3) directors, all non-executive, majority of whom, including the Chairman, shall be independent directors. The "independence" of directors shall be determined according to the applicable guidelines and requirements issued or adopted by the Corporate Governance Committee as currently embodied in the Code, as supplemented, amended or varied from time to time.
4. The members of the AC shall be appropriately qualified to discharge their responsibilities. At least two (2) members (including the Chairman) shall have recent and relevant accounting or related financial management expertise or experience as the Board interprets such qualification in its business judgement.
5. The Chairman and members of the AC shall be appointed by the Board.
6. A former partner or director of the Company's existing auditing firm or auditing corporation shall not act as a member of the AC (a) within a period of 12 months commencing on the date of his ceasing to be a partner of the auditing firm or director of the auditing corporation, and in any case (b) for as long as he has any financial interest in the auditing firm or auditing corporation.

7. A member who wishes to retire or resign from the AC shall notify the Board in writing giving three (3) months' notice or such shorter notice as may be agreed by the Board.
8. A member shall automatically cease to be a member of the AC if he is removed or disqualified under the rules of the Act, or if he resigns or retires or is not re-elected as a Board member.
9. Where, by virtue of any vacancy in the membership of the AC for any reason, the number of members of the AC is reduced to less than three (3), the Board shall, within three (3) months thereafter, appoint such number of new members to the AC as may be required to make up the minimum number of three (3). Any new member appointed shall hold office for the remainder of the term of office of the member of the AC in whose place he is appointed.

## **MEETINGS**

10. The AC may ask members of management or others to attend the meeting and provide pertinent information as necessary.
11. The meetings of the AC shall be held at least four times a year.
12. The AC shall meet with the external auditors, and with the internal auditors, jointly and separately, in each case without the presence of management, at least annually.
13. The AC may regulate its own procedures and in particular the calling of meetings, the notice to be given of such meetings, the voting and proceedings thereat. The Secretary shall on the requisition of a committee member (hereinafter referred to as member) summon a meeting of the members.
14. Upon the request of the external auditors, a meeting of the AC will also be convened to consider any matter the auditors believe should be brought to the attention of the directors or shareholders.
15. Seven (7) days' notice in writing or such shorter notice as may be agreed by members will be given by the Secretary, specifying the place, time and agenda of the meeting. A copy of the notice shall also be sent to the external auditors. The expression "in writing" includes those in the form sent out by mail, telefax or electronic mail by any such member.
16. The quorum necessary for the transaction of the business of the AC shall be two (2) members, at least one (1) of whom shall be an independent member.
17. If, at any meeting the Chairman is not present within fifteen (15) minutes after the time appointed for holding the meeting, the members present may choose one of the other independent members to be Chairman of the meeting.
18. Of the members participating in a decision of the AC, a majority shall be independent. In case of an equality of votes, the Chairman of the meeting shall have a second or casting vote. In the event a member is interested in any matter being considered by the AC, he will abstain from reviewing that particular transaction or voting on that particular resolution. A member shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting. If there is a deadlock situation in the resolution of the matter, then the matter shall be referred to the Board.
19. The members of the AC may participate in a meeting via telephone conference or such other similar communication equipment by means of which all persons participating in the meeting can hear each other, without a member being in the physical presence of another member or members, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. Minutes of such a meeting signed by all participants of the meeting shall be conclusive evidence of any resolution of any meeting conducted in such manner. A resolution passed by such a conference shall, notwithstanding that the members of the AC are not present together at one place at the time of the conference, be deemed to have been passed at a meeting of the members held on the day and at the time at which the conference was held and shall be deemed to have been held at the registered office of the Company, unless otherwise agreed, and all the members

participating at that meeting shall be *deemed* for all purposes of this Terms of Reference to be present at that meeting.

20. A resolution in writing, signed by majority of the members for the time being entitled to receive notice of a meeting of the AC, shall be as effective as a resolution duly signed at a meeting of the AC. Any such resolution may consist of several documents in like form, each signed by one or more members. The expressions "in writing" and "signed" include approval by telefax or electronic mail by any such member.
21. Minutes of all proceedings of meetings of the AC shall be circulated to all the members. The minutes are to be signed and confirmed by the Chairman of the meeting. The minute books shall be kept by the Secretary and shall be open for inspection by any director of the Company.
22. The Chairman of the AC shall report on the proceedings of the committee to the Board by way of submission of minutes of the committee meetings or by such other mode as the Chairman shall in his discretion deem fit.

#### **AUTHORITY**

23. The AC shall have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

#### **RESPONSIBILITIES**

24. In respect of compliance with the Listing Rules and the Listing Manual, the principal responsibilities of the AC shall be to:

##### *Relationship with the issuer's auditors*

- (a) approves the hiring, removal, evaluation and compensation of the head of the internal audit function, or accounting/auditing firm or corporation if the internal audit function is outsourced; and ensure that the internal audit function is staffed with persons with the relevant qualification and experience and that they carry out their functions according to the standards set by nationally or internationally recognised professional bodies, including the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors;
- (b) 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;
- (c) 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;
- (d) review annually the scope and results of the external audit and its cost effectiveness as well as the independence and objectivity of the external auditors. Where the external auditors also provide non-audit services to the Company, the AC has to review the nature and extent of such services in order to balance the maintenance of objectivity and value for money, and to ensure that the independence of the external auditors would not be affected;
- (e) 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;

*Review of the issuer's financial information*

- (f) to monitor integrity of the issuer'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 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;
- (g) regarding (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 issuer'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 issuer's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

*Oversight of the issuer's financial reporting system, risk management and internal control systems*

- (h) review with the external auditors the audit plan, their evaluation of the system of internal controls, their audit report, their management letter and the management's response;
- (i) review with the internal auditors the internal audit plan and their evaluation of the adequacy of the internal control and accounting system before submission of the results of such review to the Board for approval prior to the incorporation of such results in the annual report;
- (j) 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 issuer, and to review and monitor its effectiveness;
- (k) review the internal control and procedures and ensure co-ordination between the external auditors and the management, reviewing the assistance given by the management to the auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of the management where necessary);
- (l) review and discuss with external and internal auditors (if any), any suspected fraud, whistleblowing or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's financial reporting, financial control, operating results or financial position, and the management's response;
- (m) review the Group's key financial risk areas (including but not limited to, the Group's cash management policies and cash position, collection of debts, hedging policies and transactions, speculative trading policies and positions and off-balance sheet items);
- (n) review transactions falling within the scope of Chapter 14A of the Listing Rules;
- (o) review transactions falling within the scope of Chapter 9 of the Listing Manual;

- (p) review any potential conflicts of interest;
- (q) 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;
- (r) to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;
- (s) 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 issuer's accounting and financial reporting function;
- (t) review and assess the effectiveness of internal control systems (including risk management and financial, operational, compliance and information technology controls) established by the management to identify, assess, manage, and disclose financial and non-financial risks, periodically as and when required at least once a year;
- (u) identify the risk of the Company and its subsidiaries (the "**Group**") and decide on risk levels and risk appetite;
- (v) 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;
- (w) approve major decisions affecting the Group's risk profile or exposure and give such guidelines as it considers appropriate;
- (x) review the policy and arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for such concerns to be raised and independently investigated, and for appropriate follow-up action to be taken;
- (y) consider the effectiveness of decision making processes in crises and emergency situations;
- (z) review the statements included in the annual report on the Company's internal controls and risk management framework;
- (aa) Issue directives relating to dealings in the securities of the Company;
- (bb) undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the AC; and
- (cc) generally to undertake such other functions and duties as may be required by statute, Listing Rules or the Listing Manual, and by such amendments made thereto from time to time.

## **GENERAL**

30. Report regularly to the Board on the exercise of its duties, and on the outcome of its reviews and discussions with the external auditors and its findings on any suspected fraud or irregularity, or suspected infringement of any Singapore law, the Listing Manual, the Listing Rules, rules or regulations which has or is likely to have a material impact on the operating results or financial position of the Company, as well as identifying those matters which it considers any necessary action or improvement is necessary, and making recommendations as to the step to be taken.

The AC in carrying out its tasks under these terms of reference may obtain at the Company's expense such external or other independent professional advice as it considers necessary to carry out its duties.

31. The Board will ensure that the AC has the resources access to independent professional advice at the Company's expense in order for it to perform its duties.
32. The AC shall initiate amendments to its Terms of Reference when the need arises due to changes in legislation governing corporate governance. Any director may propose such amendments to the AC's Terms of Reference, as he deems fit, by reason of changes in the Company's structure, organisation and/or operations which affect the matters set out in the Terms of Reference. All amendment to the Terms of Reference shall be submitted to the AC for approval.

Approved and adopted by the Audit Committee on 4 May 2016

Approved by the Board of Directors on 4 May 2016