

**KAI YUAN HOLDINGS LIMITED**

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS**

**KAI YUAN HOLDINGS LIMITED**  
**(the “Company”)**

(Adopted by the Company pursuant to the board resolutions passed on 23 March 2012)  
(Amended at the board meetings held on 29 March 2016 and 27 December 2018)

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**Regulations relating to the audit committee (the “Audit Committee”)  
of the board of directors (the “Board”) of the Company  
(which together with its subsidiaries, the “Group”)**

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**1. Constitution**

The Audit Committee is established pursuant to a resolution passed by the Board at a meeting held on 14 December 2001.

**2. Membership**

- 2.1 Members of the Audit Committee shall be appointed by the Board from among the non-executive directors of the Company only and a majority of whom shall be independent non-executive directors of the Company. The Audit Committee shall consist of not less than three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required in Rule 3.10(2) of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).
- 2.2 The chairman of the Audit Committee shall be appointed by the Board and must be an independent non-executive director of the Company.
- 2.3 The secretary of the Audit Committee shall be appointed by the Board.
- 2.4 The appointment of the members and secretary of the Audit Committee may be revoked, or additional members may be appointed to the Audit Committee by separate resolutions passed by the Board.

**3. Proceedings of the Audit Committee**

**3.1 *Notice:***

- (a) Unless otherwise agreed by all Audit Committee members, a meeting of the Audit Committee shall be called by at least fourteen (14) days’ notice.
- (b) A member of the Audit Committee may and, on the request of a member of the Audit Committee, the secretary to the Audit Committee shall, at any time summon a meeting of the Audit Committee. Notice shall be given to each member of the Audit Committee orally in person or in writing or by telephone or by facsimile transmission at the telephone number or facsimile number or address from time to time notified to the secretary by such member of the Audit Committee or in such other means as the members may from time to

time determine. Any notice given orally shall be confirmed in writing.

- (c) Notice of meeting shall state the time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the members of the Audit Committee for the purposes of the meeting. Supporting documents shall be sent to the members of the Audit Committee and other attendees at least 3 days in advance of the meeting (or other agreed period).

3.2 ***Quorum:*** The quorum of the Audit Committee meeting shall be two members of the Audit Committee.

3.3 The chief financial officer of the Company (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors of the Company shall normally attend meetings of the Audit Committee. The executive directors shall also have the right of attendance. However, at least twice a year the Audit Committee shall meet with the external auditors of the Company in the absence of the executive directors of the Company.

3.4 The Audit Committee shall meet at least twice a year to review and discuss the interim and annual financial statements of the Company.

3.5 Resolutions may be passed by all members of the Audit Committee in writing.

#### 4. **Alternate members**

A member of the Audit Committee may not appoint any alternate.

#### 5. **Authority**

5.1 The Audit Committee may exercise the following powers:

- (a) to seek any information it requires from any employee of the Company and its subsidiaries (the “Group”) and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend meetings of the Audit Committee and to supply information and answer questions raised by the Audit Committee;
- (b) to monitor whether the Group’s management has, in the performance of its duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Listing Rules and other rules and regulations from time to time prescribed by the Stock Exchange and/or laid down by the Board or a committee thereof);
- (c) to investigate all suspected fraudulent acts involving the Group and request management to make investigation and submit reports;
- (d) to review the Group’s internal control procedures and system;
- (e) to review the performance of the Group’s employees in the accounting and internal audit department;
- (f) to make recommendations to the Board for the improvement of the Group’s internal control procedures and system;
- (g) to request the Board to convene a shareholders’ meeting for purposes of revoking the appointment of any Director and to dismiss any employees if there is evidence showing that the relevant Director and/or employee has

failed to discharge his duties properly;

- (h) to request the Board to take all necessary actions, including convening a extraordinary general meeting, to replace and dismiss the auditors of the Group;
- (i) to obtain outside legal or other independent professional advice and to secure the attendance of independent third parties with relevant experience and expertise, if necessary; and
- (j) to exercise such powers as the Audit Committee may consider necessary and expedient so that their duties under section 6 below can be properly discharged.

5.2 The Audit Committee should be provided with sufficient resources to perform its duties.

## **6. Duties**

The duties of the Audit Committee shall be:

- (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 objectively and the effectiveness of the audit process in accordance with applicable standards;
- (c) to discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (d) to develop and implement policy 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;
- (e) to monitor the 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;
- (f) to review the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly report before submission to the Board, focusing 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;
- (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (g) with regard to (f) 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;
- (h) 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;
- (i) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have an 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;
- (j) 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;
- (k) 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;
- (l) to review the Group's financial and accounting policies and practices;
- (m) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) to report to the Board on the matters set out in the code provisions contained in the Corporate Governance Code set out in (and as amended from time to time) Appendix 14 to the Listing Rules;
- (p) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, 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;
- (q) to act as the key representative body for overseeing the Company's relations with the external auditor; and

(r) to consider other topics, as defined by the Board from time to time.

## **7. Veto rights of the Audit Committee**

The Audit Committee has the following veto rights. The Group cannot implement any of the following matters which has been vetoed by the Audit Committee:

- (a) any connected transaction within the meaning of the Listing Rules which requires an independent shareholders' vote (unless the implementation of such connected transaction by the Group is made conditional on the obtaining of the approval of the independent shareholders); and
- (b) to employ or dismiss the Group's financial controller (or any officers assuming the relevant functions but having a different designation).

## **8. Reporting procedures**

- 8.1 Full minutes of the meetings of the Audit Committee should be kept by the secretary and shall be available for inspection by any members of the Audit Committee or the Board at any reasonable time on reasonable notice. Draft and final versions of minutes of the meeting of the Audit Committee or, as the case may be, written resolutions should be sent to all members of the Audit Committee for their comment and records within a reasonable time after the meeting.
- 8.2 The chairman of the Audit Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 8.3 The chairman of the Audit Committee, or in the absence of the chairman of the Audit Committee, a member, or failing this his duly appointed delegate, shall attend the annual general meeting of the Company and make himself available to respond to any questions from the shareholders of the Company on the Audit Committee's activities and responsibilities.

## **9. Continuing applications of the bye-laws of the Company**

The bye-laws of the Company regulating the meetings and proceedings of the directors of the Company so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Audit Committee.

## **10. Powers of the Board**

The Board may, subject to compliance with the bye-laws of the Company and the Listing Rules, amend, supplement and revoke these terms of reference provided that no amendments to and revocation of these terms of reference shall invalidate any prior act and resolution of the Audit Committee which would have been valid if such terms of reference had not been amended or revoked.

27 December 2018