

# **AuGroup (SHENZHEN) Cross-Border Business Co., Ltd.**

## **Terms of Reference for the Audit Committee of the Board of Directors**

### **CHAPTER I GENERAL PROVISIONS**

**Article 1** To regulate the rules of procedure for the Audit Committee of the Board of Directors of AuGroup (SHENZHEN) Cross-Border Business Co., Ltd. (hereinafter referred to as the “**Company**”), and sufficiently protect the legal interests of the Company and its shareholders, these terms of reference are formulated in accordance with the provisions of the Company Law of the People’s Republic of China (hereinafter referred to as the “**Company Law**”), the Trial Measures for the Administration of Overseas Securities Offering and Listing by Domestic Enterprises, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “**Hong Kong Listing Rules**”) and other relevant laws, administrative regulations, departmental rules, regulatory documents and the Articles of Association of AuGroup (SHENZHEN) Cross-Border Business Co., Ltd. (hereinafter referred to as the “**Articles of Association**”) and the Rules of Procedures for Meetings of the Board of AuGroup Technology Co., Ltd. and after taking into account the actual conditions of the Company.

**Article 2** The Audit Committee is a specialized committee established under the Board and is responsible for and reports to the Board of Directors.

**Article 3** The Audit Committee is responsible for proposing the appointment or replacement of external auditors, coordinating internal audit and external audit, reviewing the Company’s financial information and its disclosure, supervising and evaluating the Company’s internal control.

### **CHAPTER II COMPOSITION OF THE AUDIT COMMITTEE**

**Article 4** The Audit Committee consists of three non-executive directors of the Company, of which independent non-executive directors constitute a majority, and at least one independent non-executive director is a professional in accounting. A former partner of the Company’s current external auditor shall not serve as a member of the Audit Committee within a period of two years from the date on which he/she ceases to be a partner of the external auditor or ceases to enjoy the financial benefits of the current external auditor, whichever is later.

**Article 5** The members of the Audit Committee shall be nominated by the chairman of the Board, or more than half of the independent non-executive directors, or more than one-third of all directors, and shall be elected and passed with more than half of all directors of the Board.

**Article 6** The Audit Committee has a committee chairman, who must be an independent nonexecutive director, and responsible for presiding over committee work. The committee chairman shall be elected within the committee and shall be submitted to the Board for approval.

**Article 7** The term of office of the members of the Audit Committee shall be consistent with the term of office of the directors. Upon expiration of the term of a member, such member may be re-elected for a consecutive term. During the term of office, if any member no longer serves as a director of the Company or a member who should have the status of an independent non-executive director no longer has the independence stipulated in the Articles of Association, such person will automatically lose his/her membership qualification and the Board will make up for the number of committee members in accordance with Articles 4 to 6 above.

**Article 8** The Audit Committee has set up a working group, which is responsible for, among others, the daily work of task coordination, organization of meetings, preparation of materials and filing management. The members of the working group need not be members of the Audit Committee. When the Audit Committee performs its duties, the Company's management and relevant departments should cooperate.

**Article 9** The provisions of the Company Law and the Articles of Association on directors' obligations are applicable to members of the Audit Committee.

### **CHAPTER III DUTIES OF THE AUDIT COMMITTEE**

**Article 10** The main duties of the Audit Committee are as follows:

- (I) Advise the Board on the appointment, re-appointment, replacement and removal of external auditors, approve the remuneration and terms of employment of external auditors, and address any issues relating to the resignation or dismissal of external auditors;
- (II) Review and monitor whether the external auditors are independent and objective and whether the audit procedures are effective according to applicable standards; the Audit Committee should discuss with the auditors about the nature, scope, methods and relevant declaration responsibilities before the audit work begins;
- (III) Formulate and implement policies regarding the engagement of external auditors to provide non-audit services. For the purpose of this provision, an external auditor includes any organization that is under the same control, ownership or management with the company responsible for the audit, or a third party who is reasonably aware of all relevant information and is reasonably concluded as being any organization constituting a part of the local or international operations of the company responsible for the audit work. The Audit Committee shall report and make recommendations to the Board on any matters requiring action or improvement;
- (IV) Review and monitor the truthfulness, completeness and accuracy of the Company's financial statements (including their disclosures) and annual reports and accounts, half-year reports, review the material opinions on the relevant financial statements contained in the statements and reports. Before submitting the relevant statements and reports to the Board, the Audit Committee should review the following matters in particular: whether there have been changes in the Company's accounting policies, practices and estimates during the reporting period, matters involving significant judgments, major adjustments arising from audits, the Company's going-concern assumptions or any qualified opinions, whether the accounting complies with accounting standards and the legal requirements of financial reporting and the Hong Kong Listing Rules;

For the above-mentioned items that require focused review, members of the Audit Committee need to communicate in a timely manner with the Board, senior management officers, internal and external auditors, and promptly review letters from the external auditor to the management or any significant questions raised to the management about accounting records and financial statements, etc., and any response from the management, resolve disputes and differences arising between the management or internal audit department and the external auditor regarding relevant statements and reports. The Audit Committee members are required to convene meetings with the Company's external auditor at least twice a year. Members of the Audit Committee must study significant or unusual matters that are reflected or required to be reflected in the Company's reports and accounts, and should give due consideration to matters raised by the Company's accounting and finance departments, regulatory authorities or auditors;

- (V) Discuss the issues raised by external auditor after reviewing the Company's semi-annual accounts and auditing annual accounts of the Company;
- (VI) Examine the Company's financial policies, financial supervision and control, internal audit system, risk management and internal control systems, and provide opinions and suggestions for improvement;
- (VII) Discuss risk management and internal supervision and control systems with the management to ensure that the management has fulfilled its responsibilities to establish effective systems. The details of discussion should include the adequacy of the issuer's resources, staff qualifications and experience in its accounting and financial reporting functions, as well as the adequacy of training programs and related budgets for staff;
- (VIII) Conduct research on significant findings in matters related to risk management and internal supervision and control and the management's response to such findings, either proactively on its own initiative or in response to request by the Board;
- (IX) The Audit Committee should establish relevant procedures to ensure that the following matters may be investigated and resolved in a fair and independent manner:
  - 1. Receive and handle complaints raised about the Company's accounting, internal control or auditing matters, and ensure their confidentiality;
  - 2. Receive and handle complaints or anonymous reports from employees about possible misconduct occurred in accounting, auditing matters, internal control or other aspects, and ensure their confidentiality;
- (X) Serve as the primary representative between the Company and the external auditors to monitor their relationship;
- (XI) Matters as required by applicable laws, regulations, Articles of Association and the Hong Kong Listing Rules and other matters authorized by the Board of the Company.

**Article 11** The main duties and powers of the chairman of the Audit Committee are as follows:

- (I) Convene and preside over meetings of the Audit Committee;
- (II) Supervise and examine the implementation of resolutions passed at meetings of the Audit Committee;
- (III) Sign important documents of the Audit Committee;
- (IV) Report their work to the Board of the Company on a regular basis;
- (V) Exercise other powers granted by the Board.

**Article 12** The Audit Committee shall report to the Board on measures or improvements it deems necessary and make recommendations.

**Article 13** The Audit Committee has the right to engage independent consultants, legal advisers and other advisers as and when necessary to carry out its affairs. The Company must provide such financial and funding assurances as the Audit Committee deems appropriate to pay for the remuneration of accounting firms providing financial auditing services and related services such as audit, review and verification, as well as the remuneration of consultants engaged by the Audit Committee.

#### **CHAPTER IV WORKING PROCEDURES OF THE AUDIT COMMITTEE ON ANNUAL REPORT**

**Article 14** The Audit Committee shall earnestly perform its duties and obligations in the preparation and disclosure process of the Company's annual report, and perform its work diligently.

**Article 15** Within 90 days after the end of each accounting year, the management of the Company shall report to the Audit Committee on the production and operation conditions of the Company during the year and the progress of significant matters such as investment and financing activities, and the person in charge of the Company's finance shall report to the Audit Committee on the financial position and operating results for the current year. The Audit Committee shall conduct on-site studies on the relevant material issues.

**Article 16** The finance department is responsible for making preliminary preparation work for decision-making by the Audit Committee, and provides written information on relevant aspects of the Company:

- (I) Relevant financial reports of the Company;
- (II) Work reports of internal and external auditors;
- (III) External auditing contracts and related work reports;
- (IV) Disclosure of information by the Company to external parties;

(V) Significant connected transactions of the Company;

(VI) Other relevant matters.

**Article 17** The Audit Committee will comment on the report provided by the finance department and submit the relevant materials of written resolutions to the Board for discussion:

(I) Evaluation on work performance, engagement and replacement of external auditors;

(II) Whether the internal audit system of the Company has been effectively implemented and whether the financial report of the Company is comprehensive and true;

(III) Whether the Company's disclosure of information, such as financial report, to external parties is objective and true, and whether the Company's significant connected transactions have complied with the requirements of relevant laws and regulations;

(IV) Appraisal on the work of the Company's finance department, audit department and the persons in charge;

(V) Other relevant matters.

**Article 18** In the process of auditing on the annual financial report of the Company, the Audit Committee shall perform the following duties:

(I) Coordinate the time schedule of audit work of accounting firm;

(II) Review the Company's annual financial information and accounting statements;

(III) Supervise the performance of the Company's annual audit by the accounting firm;

(IV) Evaluate and summarize the audit work performed by accounting firm;

(V) Make proposal on the engagement or replacement of external auditor;

(VI) Other duties as required by relevant laws and regulations.

**Article 19** The Audit Committee shall, in accordance with the Company's annual report disclosure schedule and actual situation, jointly determine the audit time of the annual financial report through consultation with the accounting firm, and the time of on-site audit work shall not be later than 20 working days before the disclosure date of the Company's annual report.

**Article 20** During the preparation and review periods of the annual report, members of the Audit Committee are obliged to maintain confidentiality. Prior to the disclosure of the annual report, there should be strict prevention against the leakage of inside information, insider dealing and other acts in violation of laws and regulations.

**Article 21** The person in charge of financial affairs of the Company shall submit to the Audit Committee in writing the arrangement of audit work for the current year and other relevant materials, including the financial accounting statements prepared by the Company, before on-site audit work is commenced by the auditor of the annual audit. The Audit Committee shall review the financial accounting statements prepared by the Company, and form written opinions on the review results for submission to the auditor conducting the annual audit.

**Article 22** The Audit Committee shall strengthen communication with the auditor of annual audit after it commences on-site audit work.

**Article 23** After the auditor of annual audit has issued the preliminary audit opinion and before convening the board meeting to review the annual report, the Company should arrange a meeting between the Audit Committee and the auditor of annual audit to communicate on the problems discovered during the auditing process. The meeting should have written records signed by the parties involved.

**Article 24** The Audit Committee shall supervise the auditor of annual audit to submit the audit report within the agreed time limit, and record the manner, frequency and results of the supervision in the form of written opinions, and they shall be signed by the relevant responsible person for confirmation.

**Article 25** Before the Company convenes the Board meeting to consider the annual report, the Audit Committee shall vote on the Company's annual financial statements and submit the resolutions to the Board for review.

**Article 26** The Audit Committee shall submit to the Board a summary report on the audit work conducted by the accounting firm for current year, and submit to the Board a resolution on the re-appointment or replacement of the accounting firm for the next year. The above documents produced by the Audit Committee shall be disclosed in the annual report.

**Article 27** The Audit Committee must focus attention on the circumstances in which the Company changes its engagement with an accounting firm during the audit period of its annual report. In principle, the Company shall not change the engagement with an accounting firm for annual audit during the audit period of the annual report. If any change of engagement is necessary, the Audit Committee shall conduct a meeting with the existing accounting firm and the proposed accounting firm to be engaged to conduct a reasonable evaluation of their quality of practice, and shall express its opinion based on its judgment on the adequacy of the reasons for the change of engagement by the Company. After a resolution is passed by the Board, a general meeting of shareholders shall be convened for approving the resolution, and the accounting firm to be replaced will be notified to attend the meeting for stating its opinions at the general meeting. The Company shall fully disclose the resolutions of the general meeting and the opinions of the replaced accounting firm.

## **CHAPTER V RULES OF PROCEDURE OF THE AUDIT COMMITTEE**

**Article 28** The Audit Committee meetings are divided into regular meetings and extraordinary meetings. Regular meetings of the Audit Committee shall be convened at least twice a year, shall be notified to all members five days before the date of convening the meeting. An extraordinary meeting may be convened by more than half of the committee members or by the convener, and shall be notified to all members three days before the date of convening the meeting. For an extraordinary meeting proposed to be convened by members of the Audit Committee, the aforesaid notice period may be waived with written consent from more than half of all members.

**Article 29** Meetings of the Audit Committee shall be convened and presided over by the convener. If the convener is unable or refuses to perform his/her duties, he/she shall designate or appoint another member who is an independent non-executive director to perform his/her duties on his/her behalf.

**Article 30** The notice of meeting shall at least include the following:

- (I) Time, place and method of convening the meeting;
- (II) The duration of the meeting;
- (III) Topics to be discussed at the meeting;
- (IV) The contact person of the meeting and his/her contact information;
- (V) The date of the notice of the meeting.

**Article 31** A meeting of the Audit Committee shall be held only by the presence of more than two-thirds of the members; each member has one vote; resolutions made at the meeting must be passed by more than half of all members.

**Article 32** The members of the Audit Committee shall attend the meetings in person and clearly express their opinions on the matters to be considered. If a member is unable to attend the meeting in person for some reasons, he/she may appoint another member to attend the meeting and express opinions on his/her behalf. For a member who is an independent non-executive director, he/she may only appoint another independent non-executive director to attend the meeting. Each member may only accept appointment from one other member.

**Article 33** If another member is appointed as proxy to attend the meeting and exercise voting right, a power of attorney should be submitted to the chairman of the meeting. The power of attorney should be submitted to the chairman of the meeting no later than before voting at the meeting.

**Article 34** The power of attorney shall be signed by the appointer and the appointee and shall include at least the following:

- (I) The name of the appointer;
- (II) The name of the appointee;
- (III) Matters to be handled by the appointee;
- (IV) Instructions on the exercise of voting right on the topics of the meeting (for, against, abstain);
- (V) The time limit of the authorization;
- (VI) The date of signing the power of attorney.

**Article 35** If a member of the Audit Committee neither attends the meeting in person nor appoints another member to attend the meeting on his/her behalf, he/she is deemed to be absent from the relevant meeting. If a member fails to attend two consecutive meetings, he/she is deemed to be unable to perform his/her duties and powers properly, and the Board of the Company may remove him/her from his/her position as a member.

**Article 36** Voting at Audit Committee meetings shall be performed by show of hands or by poll.

**Article 37** Meetings of the Audit Committee may be held either by means of on-site meetings or by means of communication meetings. Communication meetings include teleconferences, video conferences and written resolution meetings.

**Article 38** When a meeting of the Audit Committee is convened by way of written resolutions, the written resolution shall be sent to all members by fax, express courier or personal delivery. After the members have voted on the resolution, the original resolution shall be mailed back to the Company for filing. If the number of members who have signed and given consent meets the required number of members stipulated in these terms of reference, the resolution shall become the resolution of the committee.

**Article 39** At a meeting convened by the Audit Committee, other directors, supervisors, senior management officers of the Company may also be invited to attend the meeting as non-voting delegates when necessary. If necessary, the Audit Committee may engage an intermediary to provide professional advice for its decision-making, and the expenses shall be borne by the Company.

**Article 40** Minutes of the meetings shall be kept by the Audit Committee. The first draft and final version of the minutes of meetings shall be dispatched to all members present at the meeting within a reasonable period of time after the meeting for expression of opinions on the first draft and for record purpose with the final version, and a summary of the minutes shall be compiled after the meeting, which together with the resolutions passed, shall be submitted to the Board (except such submission is prohibited by law or regulatory restriction). Members who have attended the meeting shall sign on the minutes of meeting and the resolutions. Members with dissenting views on the resolutions should be specified in the minutes of meeting or summary of minutes. The minutes of meetings shall be kept by the secretary to the Board of the Company, and shall be kept for at least 10 years during the existence of the Company.

**Article 41** The minutes of meeting shall include at least the following:

- (I) The date, place, method of convening the meeting and the name of the convener;
- (II) The names of the persons attending the meeting, proxies appointed to attend the meeting on behalf of others shall be specified;
- (III) The meeting agenda;
- (IV) The voting method of each resolution or proposal and the voting result indicating the number of votes for, against or abstention;
- (V) Other matters that shall be explained and recorded in the minutes of meeting.



**Article 42** The resolutions passed and the voting results of the Audit Committee meetings shall be notified to the Board of the Company by the members of the committee or the secretary to the Board of the Company no later than the day after the effective date of the resolutions of the meeting (except it is not possible to do so due to legal or regulatory restrictions).

**Article 43** Members of the Audit Committee who have interests in matters discussed at the meeting shall abstain from deliberation and voting.

**Article 44** All attendees are obliged to keep confidential the matters discussed at the meeting and shall not disclose relevant information without authorization.

**Article 45** The Audit Committee should report to the Board on actions or improvements it deems necessary and make recommendations on the steps that may be adopted.

## **CHAPTER VI ANNUAL GENERAL MEETING**

**Article 46** The chairman of the committee is required to attend the annual general meeting of the Company and be prepared to answer any questions raised by shareholders on matters relating to the duties of the Audit Committee.

**Article 47** If the chairman of the committee is unable to attend the annual general meeting of the Company, he/she must make arrangement for another member of the committee to attend the general meeting. Such person shall be prepared to answer questions raised by shareholders regarding the work of the committee at the annual general meeting.

## **CHAPTER VII SUPPLEMENTAL PROVISIONS**

**Article 48** Unless otherwise specified, the terms used in these terms of reference shall have the same meaning as those used in the Articles of Association.

**Article 49** The terms “above” and “within” mentioned in these terms of reference include the original number; “exceeds” and “less than” do not include the original number.

**Article 50** For any matters not covered by these terms of reference, the Company shall comply with the relevant laws, regulations or regulatory documents (including the listing rules of the place where the shares of the Company are listed), and the Articles of Association, the resolutions of the Company’s general meetings or provisions of other relevant rules and regulations for implementation; if these terms of reference are inconsistent with the provisions of the relevant laws, regulations or regulatory documents (including the listing rules of the place where the shares of the Company are listed) or the Articles of Association, the provisions of the relevant laws, regulations or regulatory documents (including the listing rules of the place where the shares of the Company are listed) and the Articles of Association shall prevail for implementation.

**Article 51** The Board shall be responsible for the formulation and amendment of these terms of reference, as well as their interpretation.

**Article 52** These terms of reference, after being considered and approved by the Board of the Company, shall take effect from the date of listing and trading of the overseas listed foreign shares (H Shares) on The Stock Exchange of Hong Kong Limited upon initial public offering of the Company for implementation, and from the effective date of these Terms of Reference, the original Terms of Reference for the Audit Committee of the Board of Directors of AuGroup Technology Co., Ltd. shall be void.

**AuGroup (SHENZHEN) Cross-Border Business Co., Ltd.**