

WEIYE HOLDINGS LIMITED

AUDIT COMMITTEE

TERMS OF REFERENCE

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1. INTRODUCTION

- 1.1 The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) require every listed company to establish an audit committee (“**AC**”) which report to the board of directors of the listed company.
- 1.2 This terms of reference of the AC of Weiye Holdings Limited (the “**Company**”) sets out its authority and duties as well as the procedure regulating the conduct of its meeting.
- 1.3 The overall objective of the AC is to ensure that the management of the Company (the “**Management**”) has created and maintained an effective control environment in the Company, and that Management demonstrates and stimulates the necessary respect of the internal control structure among all parties.
- 1.4 The primary responsibilities of the AC are:
- (a) to assist the board of directors of the Company (the “**Board**”) in fulfilling its responsibilities in respect of the Company’s accounting policies, risk management, internal controls, financial reporting practices and business policies;
 - (b) to monitor Management’s commitment to the establishment and maintenance of a satisfactory control environment and an effective system of internal control (including any arrangements for internal audit);
 - (c) to maintain a channel of communication among members of the Board, the financial management team, and the internal and external auditors on matters arising out of the internal and external audits and to consider the adequacy of arrangements for audit;
 - (d) to monitor and review the scope and results of external audit and its cost effectiveness and the independence and objectivity of the external auditor;
 - (e) to review and report to the Board at least annually the adequacy and effectiveness of our Group’s internal controls, including financial, operational, compliance and information technology controls (carried out internally or with the assistance of any competent third parties);
 - (f) to review our Group’s financial information, by monitoring the integrity of our Group’s financial statements and announcements relating to the Company’s financial performance and annual report and accounts, half-year report and quarterly reports (if any), and to review significant financial reporting judgements contained in them;
 - (g) to act as the key representative body for overseeing our Group’s relation with the external auditor;
 - (h) to make recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal; and

- (i) to review arrangements our Group’s employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The AC should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

2. COMPOSITION

- 2.1 The AC shall be appointed by the Board from among the members of the Board.
- 2.2 The AC is required to have at least three members, all of whom have to be non-executive and the majority, including the Chairman, have to be independent.
- 2.3 The AC should have broad business experience, knowledge of the operations, finance and auditing procedures of the Company and its subsidiaries (the “Group”) with at least one member having accounting or related financial management expertise or experience.
- 2.4 A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the AC for a period of two years from the date of his/her ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.
- 2.5 A member of the AC shall hold office until the next Annual General Meeting following that member’s appointment and may be re-appointed to such office.
- 2.6 A member who wishes to retire or resign from the AC shall notify the Board in writing giving one (1) month notice or such shorter notice as may be agreed by the Board.
- 2.7 A member shall notify the AC immediately, of any change in circumstances that may result in him not being able to meet the criteria for independence (within the meaning of Rule 3.13 of the Listing Rules). The Board may, after considering the change in circumstances, require the resignation of the member.
- 2.8 The members of the AC may elect from their number a Chairman. Until that election, the Chairman shall be the person appointed by the Board.

3. PROCEDURES GOVERNING MEETINGS

The AC being a committee of the Board shall conform to any regulations which may be from time to time imposed by the Board.

4. QUORUM

The quorum of the AC meeting shall be 2 members.

5. REQUISITION OF MEETINGS

- 5.1 The AC shall meet at least twice per year or more frequently as circumstances require.
- 5.2 The AC may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. At any time, any member may summon a meeting of the members by issuing at least 7 days’ notice in writing (exclusive both of the day on which notice is served or deemed to be served and the day for which the notice is given) to each and every member.

The expression “in writing” include those in the form sent out by mail, telefax, telex, cable, electronic mail or telegram by any such member.

- 5.3 The members may however, by unanimous consent, waive the aforesaid and allow for a shorter period of notice.

6. CONDUCT OF MEETING

- 6.1 The Chairman of the AC shall preside at each meeting. If the Chairman of the AC is not present within five (5) minutes after the time appointed for holding the meeting, the members present may choose one of their members to be Chairman of the meeting so long as the appointed Chairman is an independent non-executive director.

- 6.2 Questions arising from any meeting shall be determined by a majority of votes of the members present, and in case of an equality of votes, the Chairman shall have a second or casting vote.

- 6.3 The AC shall have full access to and co-operation by Management and full discretion to invite any director or executive officer to attend meetings.

7. PARTICIPATION VIA COMMUNICATION EQUIPMENT

The members 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.

8. RESOLUTIONS IN WRITING

A resolution in writing signed by majority of the members shall be as effective as a resolution duly passed at an AC meeting and may consist of several documents in the like form, each signed by one or more members. The expression “in writing” and “signed” include approval by telefax, telex, cable, electronic mail or telegram by any such member.

9. DEBARRED FROM VOTING

A member shall not vote in respect of any matters or proposal whatsoever in which he has any interest, directly or indirectly. A member shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

10. AUTHORITY

- 10.1 The AC is authorised by the Board to investigate any activity within this terms of reference. It is authorised to seek any information it requires from any employee of the Group and all employees of the Group (including members of the Board) are directed to co-operate with any request made by the AC.

- 10.2 The AC is authorised by the Board to obtain outside legal or other independent professional advice, at the expense of the Company, to fulfill its responsibilities and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary or desirable. Note: All such arrangements of obtaining outside legal or other independent professional advice may be made by the company secretary.

10.3 The AC shall have access to sufficient resources in order to perform its duties.

11. ROLE AND RESPONSIBILITIES

11.1 AC is responsible to perform functions including but not limited to:

11.1.1 review with the external auditors the audit plan, scope of work, their evaluation of the system of internal accounting controls, their management letter and the management's response, and results of the audits conducted by the Group's internal and external auditors;

11.1.2 monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports (if any), and to review significant financial reporting judgements contained in them, before submission to the Board for approval, focusing in particular, on changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, the going concern assumptions and any qualifications, compliance with accounting standards as well as compliance with the Listing Rules and any other statutory or regulatory requirements in relation to financial reporting;

11.1.3 regarding 11.1.2 above:– (i) members of the AC should liaise with the Board and senior management and the AC must meet, at least twice a year, with the Company's auditors; and (ii) the AC 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;

11.1.4 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 Company's accounting and financial reporting function;

11.1.5 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 AC should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

11.1.6 where an internal audit function exists, ensure co-ordination between the external and internal auditors and the Management, 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;

11.1.7 review and discuss with the external auditors any suspected fraud 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 operating results or financial position, and the management's response;

11.1.8 consider the appointment, re-appointment and removal of the external auditors and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

- 11.1.9 review the appointments of persons (upon appointment and upon renewal of their respective service contracts), occupying managerial positions who are related to the directors, CEO or the Controlling Shareholders of the Group, including their remuneration;
- 11.1.10 review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The AC should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 11.1.11 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;
- 11.1.12 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;
- 11.1.13 review the Group's financial and accounting policies and practices;
- 11.1.14 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;
- 11.1.15 ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 11.1.16 review the adequacy of the internal audit function and ensure that a clear reporting structure is in place on the matters in this terms of reference between the AC and the internal auditors;
- 11.1.17 review any potential conflicts of interest;
- 11.1.18 review the adequacy of potential business risk management processes;
- 11.1.19 review and approve all hedging policies and instruments (if any) to be implemented by the Group;
- 11.1.20 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;
- 11.1.21 review and sight all resignation letters of the legal representatives of the Group's PRC Subsidiaries, which have been signed in advance, and such letters shall be held in custody by the Group's company secretary;
- 11.1.22 review and establish procedures for receipt, retention and treatment of complaints received by the Group, inter alia, criminal offences involving the Group or its employees, questionable accounting, auditing, business, safety or other matters that impact negatively on the Group; and
- 11.1.23 generally to undertake such other functions and duties as may be required by statute or the Listing Rules, and by such amendments made thereto from time to time.

Apart from the duties listed above, the AC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any applicable law, rules or regulations which has or is likely to have a

material impact on the Group's operating results and/or financial position. Each member of the AC shall abstain from reviewing any particular transaction or voting on such resolution in respect of which he is or may be interested in.

In addition, the Group has adopted the following procedures in respect of any change of the legal representatives of the Group's PRC Subsidiaries:–

- (a) each of the Group's PRC Subsidiaries' articles of association has been amended to allow the shareholders of each of the Group's PRC Subsidiaries to have the power to remove the respective legal representative, and the legal representatives shall not be able to object to such removal;
- (b) A resignation letter has been signed in advance by the current legal representative of each of the Group's PRC Subsidiaries. All subsequent appointment of the legal representatives will also have resignation letters signed in advance. The Group's corporate secretary shall have custody of these resignation letters; and
- (c) It is part of the AC's responsibility to sight and review at least quarterly all resignation letters of the legal representatives of the Group's PRC Subsidiaries which have been signed in advance.

12. REPORTING

- 12.1 The company secretary of the Company shall be the secretary of the AC. In the absence of the company secretary, his/her delegate(s) or any person elected by the members present at the meeting of the AC shall attend the meeting of the AC and take minutes.
- 12.2 Full minutes of the meetings of the AC shall be kept by the secretary of the AC.
- 12.3 Each meeting of the AC shall be properly minuted and upon confirmation of such minutes by the Chairman, a copy of the confirmed minutes shall then be duly circulated to all members.
- 12.4 The AC should report to the Board on a regular basis on its decisions or recommendations.

13. ANNUAL GENERAL MEETINGS

The chairman of the AC or in his/her absence, another member of the AC or failing this, his/her duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to questions at the annual general meeting on the AC's work and responsibilities.

14. DISCLOSURE IN ANNUAL REPORT IN COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

- 14.1 The following are to be disclosed in the Annual Report:–
 - 14.1.1 The names of the AC members.
 - 14.1.2 The list of directors who are executive, non-executive or considered by the AC as independent as well as the names of the directors submitted for election or re-election to be accompanied by such details and information to enable shareholders to make informed decisions.

- 14.1.3 If the AC determines that a director has one or more relationships is in fact independent, the full nature of the relationship(s) as well as explanation on why the director is consider independent.
- 14.1.4 Key information regarding directors, such as academic and professional qualifications, shareholdings in the Company and its subsidiaries, board committees served on (as a member or chairman), date of first appointment as a director, date of last re-election as a director, directorships or chairmanships both present and those held over the preceding three years in other listed companies and other major appointments.
- 14.1.5 Process to be carried out in assessing the effectiveness of the Board as a whole as well as the contribution by each individual director to the effectiveness of the Board.
- 14.1.6 Where the Board disagrees with the AC's view on the selection, appointment, resignation or dismissal of the external auditor, the AC will arrange for the Corporate Governance Report in the Annual Report to include an explanation of the AC's view and the reasons why the Board has taken a different view.

15. PROCEDURES RELATING TO CHANGES OR AMENDMENTS IN THE AC'S TERMS OF REFERENCE

- 15.1 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 give instructions for 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.
- 15.2 Amendment to the Terms of Reference shall be submitted to the AC for consideration and approved by the Board.