

**YIHAI INTERNATIONAL HOLDING LTD.**  
**( 頤海國際控股有限公司 )**  
(Incorporated in the Cayman Islands with limited liability)

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**YIHAI INTERNATIONAL HOLDING LTD.**  
**(the “Company”)**

**Terms of Reference for the  
Audit Committee**

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(Adopted on June 20, 2016 and amended on December 9, 2018)

## Definitions

1. For the purposes of these terms of reference (the “**Terms**”):

**Audit Committee** means the audit committee established by the resolution of the Board in accordance with Clause 2 of these Terms.

**Board** means the board of directors of the Company.

**Chief Financial Officer** means the senior officer of the Company responsible for financial management as appointed by the Board from time to time.

**Company Secretary** means the company secretary of the Company.

**Directors** mean the directors of the Board.

**Group** means the Company and its subsidiaries and associated companies at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries and associated companies, the present subsidiaries and associated companies of the Company or the businesses operated by its present subsidiaries and associated companies or (as the case may be) its predecessor.

**Listing Rules** means The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time).

**Senior Management** means the Chief Executive Officer, Chief Financial Officer, general manager, vice general manager, sales director, Company Secretary and any other officers of the Company as may be appointed by the Board to be senior management of the Company, as well as other employees as may be determined by the Board to be part of senior management of the Company from time to time.

**Shareholders** mean the shareholders of the Company.

**Stock Exchange** means The Stock Exchange of Hong Kong Limited.

## **Establishment**

2. The Audit Committee was established by resolutions of the Board on June 20, 2016.

## **Membership**

3. The members of the Audit Committee shall be appointed by the Board from amongst the non-executive Directors and shall consist of not less than three members, a majority of whom should be independent non-executive Directors and at least one of whom should be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules. The quorum of an Audit Committee meeting shall be any two members of the Audit Committee, one of whom must be an independent non-executive Director.
4. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of two years from the date of his ceasing:
  - (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm, whichever is later.
5. The chairman of the Audit Committee shall be appointed by the Board and should be an independent non-executive Director.
6. Unless otherwise determined by the Board, the term of office of a member of the Audit Committee shall correspond to that of a Director. If a member of the Audit Committee ceases to be a Director during the term of office, his qualification as a member of the Audit Committee shall lapse automatically, and the Board shall appoint a new member to fill in the vacancy in accordance with the Terms.

## **Attendance at Meetings**

7. The Chief Financial Officer, the head of internal audit of the Company and a representative of the external auditors of the Company shall normally attend meetings convened by the Audit Committee. However, the Audit Committee shall meet with the external and internal auditors without the executive Directors present at least once a year.

## **Frequency and Procedure of Meetings**

8. Unless otherwise stated herein, the meetings of the Audit Committee are governed by the provisions regulating the meeting and proceedings of the Board contained in the Company's Articles of Association.
9. Meetings shall be held by the Audit Committee not less than twice a year. The external auditors may request a meeting as they consider necessary. Meetings may be convened by way of onsite meeting or written resolution. Telephone conference or video conference systems or other electronic means may be provided for the convenience of the members to attend onsite meetings. The members shall be deemed as attending the onsite meeting in person if attending by any of the aforesaid means. Written resolution refers to the resolution individually delivered or circulated to each of the member for consideration and decision-making.
10. An agenda and accompanying meeting papers should be sent in full to all members of the Audit Committee in a timely manner and at least three days before the proposed date of a meeting of the Audit Committee (or other period agreed by members of the Audit Committee).
11. The members shall attend the meeting in person and may appoint another member as proxy to attend the meeting and vote on his behalf. Where a proxy is appointed to attend the meeting and vote on a member's behalf, a power of attorney shall be submitted to the chairman of the meeting no later than the time of voting at the meeting. The power of attorney shall set out the name of the appointer, the name of the proxy, subject matters of representation, scope of authorization (including instructions on voting (for, against, or abstain) for proposals to be considered at the meeting, or where no specific instruction is given, a statement as to whether or not the proxy can vote in accordance with his own will) and the period of validity, which shall be signed and dated by the appointer.

12. Voting in the meeting of the Audit Committee may be conducted by a show of hands or by poll. Each member shall have one vote. If members attending by means of telephone conference or video conference are unable to sign the resolutions instantly, they shall vote orally and complete the signing procedures on the resolutions as soon as possible. The resolution signed thereafter shall be consistent with the result of oral votes during the meeting. Resolutions of the meeting shall be passed by more than half of all members.
13. When a member of the Audit Committee is interested in the matter being discussed at the meeting of the Audit Committee, he shall disclose the nature and materiality of his interest to the Audit Committee as soon as possible and shall abstain from attending such meeting. A member shall abstain from the discussion of or voting on the proposals which he is supposed to abstain from, and shall leave the meeting temporarily or take other means to this end.
14. If a proposal fails to be resolved due to the abstention of members, the Audit Committee shall pass a resolution to submit the proposal to the Board for consideration and deliver it promptly to the Board for review. The Audit Committee shall provide the results of its review of the proposal in the resolution to be submitted to the Board and shall include therein the opinions of the independent members regarding the proposal.
15. Members of the Audit Committee and other persons attending the meetings shall keep confidential all matters discussed at the meetings. Unauthorized disclosure of relevant information is prohibited.
16. Senior Management is obliged to supply the Audit Committee with adequate information, in a timely manner, in order to enable it to make informed decisions. The information supplied must be complete and reliable. Where a member requires more information than the information provided voluntarily by Senior Management, that member is entitled and encouraged to request further information until satisfied. All members shall have separate and independent access to Senior Management.
17. The secretary of the Audit Committee shall be the Company Secretary or his appointed delegate.

## **Annual General Meeting**

18. The chairman of the Audit Committee shall attend the Company's annual general meeting and be prepared to respond to any Shareholder's question on the Audit Committee's activities.
19. If the chairman of the Audit Committee is unable to attend an annual general meeting of the Company, he shall arrange for another member of the Audit Committee, or failing such, his duly appointed delegate, to attend in his place. Such delegate shall be prepared to respond to any Shareholder's question on the Audit Committee's activities.

## **Authority**

20. The Audit Committee is authorized by the Board to investigate any activity mentioned in these Terms or otherwise affecting the integrity of the Company. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.
21. The Audit Committee is authorized by the Board to obtain external independent professional advice, at the Company's expense, and to secure the attendance of outsiders with relevant experience and expertise, if it considers necessary. The Audit Committee shall be exclusively responsible for establishing the selection criteria and selecting, appointing and setting the terms of reference for any external consultant who advise the Audit Committee.
22. The Audit Committee is authorized by the Board to review the effectiveness of the Company's and its subsidiaries' internal control systems, covering all material controls, including financial, operational and compliance controls, risk management functions, including financial, business, operational and other risks of the Company and its subsidiaries, and to undertake any related investigations.

## **Duties**

23. The duties of the Audit Committee shall include:

### Relationship with the Company's auditors

- (a) making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and considering any questions of resignation or dismissal of that auditor;
- (b) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (c) developing and implementing policies on the engagement of an external auditor to supply non-audit services, and reporting to the Board, identifying and making recommendations on any matters in respect of which it considers that action or improvement is needed;
- (d) discussing with the external auditor, before the audit commences, the nature and scope of the audit and reporting obligations thereof, and ensuring coordination where more than one audit firm is involved;
- (e) discussing problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss (in the absence of Senior Management where necessary);

### Review of the Company's financial information

- (a) monitoring the integrity of financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them. In reviewing these statements and reports before submission to the Board, the Audit 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 any legal requirements in relation to financial reporting;
- (b) In regard to (a) above:
  - (i) liaising with the Board, Senior Management and the person appointed as the Company's qualified accountant;
  - (ii) meeting, at least twice a year, with the Company's auditors; and
  - (iii) considering any significant or unusual items that are, or may need to be, reflected in such reports and accounts and giving 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;



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

- (a) overseeing and monitoring the risk management and internal control systems of the Company on an ongoing basis, reviewing with the Company's external auditors and Senior Management periodically, and ensuring that a review of the scope, adequacy and effectiveness of the Group's corporate accounting and financial controls, risk management and internal control systems, any related significant findings regarding risks or exposures, and consideration of recommendations for improvement of such controls, is conducted at least annually. The review should cover all material controls, including financial, operational and compliance controls. In conducting the annual review, the Audit Committee should, in particular, consider:
- (i) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
  - (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
  - (iii) the extent and frequency of communication of monitoring results to the Audit Committee (or to the Board) which enables it to assess control of the Company and the effectiveness of risk management;
  - (iv) significant control failings or weaknesses that have been identified during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
  - (v) the effectiveness of the Company's processes for financial reporting and compliance with the Listing Rules;

- (b) discussing the risk management and internal control systems with Senior Management and ensuring that Senior Management has performed its duty to have effective systems. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes, and budgets of the Company's accounting, internal audit and financial reporting functions;
- (c) considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and Senior Management's response to these findings;
- (d) reviewing the Company's internal audit function\* to ensure coordination within the Group and between the Company's internal and external auditors, to ensure that the internal audit function has adequate resources and appropriate standing within the Company, and to review and monitor its effectiveness;

*\*An internal audit function generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems so as to add value and improve the Company's operations. Internal audit function helps the Company to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Company may outsource the internal audit function to competent external independent third parties.*

- (e) reporting to the Board any suspected frauds and irregularities, failures of the risk management and internal control systems or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board and review the findings of internal investigations into any suspected frauds or irregularities or failures of risk management and internal controls or infringements of laws, rules and regulations in relation to financial reporting; and
- (f) reporting to the Shareholders that it has conducted the review of effectiveness of risk management and internal control systems and of the internal audit function in the Corporate Governance Report and ensure that other disclosure requirements in relation to the Group's compliance with code provisions for risk management and internal control systems set out in the Corporate Governance Code in Appendix 14 of the Listing Rules are fulfilled.

### Oversight of the Company's financial reporting system

- (a) reviewing the Group's financial and accounting policies and practices;
- (b) reviewing the external auditor's management letter, any material queries raised by the auditor to Senior Management about accounting records, financial accounts or systems of control and Senior Management's response;
- (c) ensuring that the Board provides a timely response to issues raised in the external auditor's management letter;
- (d) reporting to the Board on the matters set out in these Terms;
- (e) reviewing arrangement with which employees of the Company can raise concerns, in confidence, about possible improprieties in financial reporting, risk management and internal control or other matters, ensuring that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (f) acting as the key representative body for overseeing the Company's relation with its external auditor;
- (g) establishing a whistle blowing policy and system for employees of the Company and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company; and
- (h) considering any other topics, as defined by the Board.

### Oversight of the Company's corporate governance functions

- (a) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- (b) reviewing and monitoring the training and continuous professional development of Directors and Senior Management;

- (c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) reviewing the Company's compliance with the Corporate Governance Code in Appendix 14 of the Listing Rules and disclosure in the Corporate Governance Report.

### **Failure to Reach an Agreement Regarding External Auditors**

- 24. Where the Board has taken a different view from the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor, the Audit Committee shall submit a statement to the Company explaining its recommendation, which shall be disclosed by the Company in the Corporate Governance Report in accordance with Appendix 14 of the Listing Rules.

### **Reporting Procedures**

- 25. Minutes shall be recorded for the meetings of the Audit Committee and shall be signed by the members present at the meetings. Full minutes of the Audit Committee's meetings shall be kept by the secretary of the Audit Committee as designated in clause 17 of these Terms for a period of not less than 10 years. The minutes shall be available for inspection at any reasonable time on reasonable notice by any Director.
- 26. Minutes of meetings of the Audit Committee shall record in sufficient detail the matters considered and decisions reached by the Audit Committee, including any concerns raised by the Directors and/or members or any dissenting views expressed. Draft and final versions of such meeting minutes should be sent to all members of the Audit Committee for their comments and records respectively, in both cases within a reasonable time after such meetings.
- 27. Without prejudice to the generality of the duties of the Audit Committee set out above, the Audit Committee shall report back to the Board on and keep the Board fully informed of its decisions and recommendations, to the extent there is no applicable legal or regulatory restrictions.

### **Provision of Terms**

28. The Audit Committee shall provide these Terms upon request and upload them to the Stock Exchange's website and the Company's website to explain the role and duties of the Audit Committee and the authority delegated to it by the Board.

### **Approval of Disclosure Statements**

29. The Audit Committee shall be responsible for approving all disclosure statements in relation to the Audit Committee, including but not limited to relevant disclosure statements in annual reports, half-year reports and information uploaded on the Stock Exchange's website and the Company's website.

### **Review of Terms**

30. The Audit Committee shall review these Terms annually, and may consider and submit to the Board any proposed changes that the Audit Committee deems appropriate or advisable.