信基沙溪集团股份有限公司
XINJI SHAXI GROUP CO., LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3603)

Terms of Reference – Audit Committee

1. CONSTITUTION

The board (the "**Board**") of directors (the "**Directors**") of Xinji Shaxi Group Co., Ltd (the "**Company**") has resolved the establishment of the audit committee of the Company (the "**Committee**") on 3 October 2019 and has adopted the following terms as the terms of reference for the Committee.

2. MEMBERSHIP

2.1 Members of the 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 shall be independent non-executive Directors and at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) (the "**Listing Rules**").

2.2 The term of each Committee member shall be the same as his/her term as a Director. Subject to the constitution of the Company and the applicable laws and regulations, any member of the Committee may be re-appointed by the Board and continue to act as a member of the Committee upon the expiry of his/her term of appointment relating thereof.

2.3 A member of the Committee who ceases to be a member of the Board shall immediately and automatically cease to be a member of the Committee.

2.4 A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of two years from the date of his/her ceasing:

2.4.1 to be a partner of the firm; or

2.4.2 have any financial interest in the firm,

whichever is later.

2.5 The chairman of the Committee (the "**Committee Chairman**") shall be appointed by the Board from time to time and shall be an independent non-executive Director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

3. COMMITTEE SECRETARY

The company secretary of the Company shall act as the secretary of the Committee (the "**Committee Secretary**"). The Committee may, from time to time, appoint any other person with the appropriate qualification and experience as the Committee Secretary. The Committee Secretary or in his/her absence, his/her representative or any one member of the Committee, shall be the secretary of the meeting.

4. FREQUENCY OF MEETINGS

4.1 Meetings shall be held not less than twice a year at appropriate times in the reporting and audit cycle and otherwise as required.

4.2 The Committee Chairman shall convene a meeting upon request by any member of the Committee. The external auditors may request a meeting if they consider that is necessary.

5. CONDUCT OF MEETINGS

5.1 Unless specified by these terms of reference, meetings and proceedings of the Committee shall be governed by the Company's articles of association regulating the meetings and proceedings of the Board.

5.2 Unless otherwise waived by all members of the Committee, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee no later than 7 working days before the date of the meeting. Supporting papers shall be sent to the Committee members and to other attendees as appropriate, at the same time.

5.3 The quorum of the Committee shall be two members of the Committee, one of whom must be an independent non-executive Director. Meetings could be held in person, by telephone or by video conference. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5.4 Resolutions of the Committee at any meetings shall be passed by a majority of votes of the members of the Committee present. Subject to compliance with the Listing Rules and the applicable laws and regulations, a resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

5.5 The Company's finance director, the head of internal audit (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors shall normally attend meetings of the Committee. The Committee may invite any member of the senior management of the Company (the "**Senior Management**"), any Director, external advisers or any other persons to attend all or part of any meetings as the Committee considers appropriate, notwithstanding that the aforementioned persons shall not have a right to vote at such meetings. However, at least once a year the Committee shall meet with the external and internal auditors without the executive Directors present except by invitation of the Committee Chairman.

6. ANNUAL GENERAL MEETINGS

The Committee Chairman, or in his/her absence, another member of the Committee, or failing which his/her duly appointed alternate(s) shall attend the annual general meetings of the Company and be available to answer questions thereat on the Committee's activities and its responsibilities.

7. AUTHORITY

7.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

7.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise at meetings of the Committee if it considers this necessary.

7.3 Management of the Company is obliged to supply the 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 of the Committee requires more information than information provided voluntarily by the management of the Company, the relevant member of the Committee should make additional necessary enquiries. Each member of the Committee shall have separate and independent access to the management of the Company.

7.4 The Committee shall be provided with sufficient resources to perform its duties.

8. DUTIES

8.1 The duties of the Committee shall include, without limitation, the following:

Relationship with the Company's auditors

8.1.1 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;

8.1.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

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

Review of the Company's financial information

8.1.4 to monitor 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. In reviewing these reports before submission to the Board, the Committee should focus particularly on:

a) any changes in accounting policies and practices;

b) major judgmental areas;

c) significant adjustments resulting from audit;

d) the going concern assumptions and any qualifications;

e) compliance with accounting standards;

f) implementation of any new key financial reporting standards, tax legislature, and regulatory developments; and

g) compliance with the Listing Rules and legal requirements in relation to financial reporting;

8.1.5 regarding paragraph 8.1.4 above:

a) members of the Committee should liaise with the Board and the Senior Management and the Committee must meet, at least twice a year, with the Company's auditors; and

b) 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 Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

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

8.1.6 to review the Company's financial controls as well as risk management and internal control systems, and to ensure that (i) the effectiveness of the risk management and internal control systems of the Company and its subsidiaries is reviewed at least annually, (ii) management provides a confirmation on the effectiveness of these systems, and (iii) the scope of the review should cover all material controls, including financial, operational and compliance controls;

8.1.7 to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have appropriate and effective risk management and internal control systems for the purposes of (among other things) dealing with identified risks (including cyber risks), safeguarding assets, preventing and detecting fraud, misconduct and loss. This discussion should include:

(a) the adequacy of resources (internal and external) for (among other things) designing, implementing and monitoring the risk management and internal control systems, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions;

(b) the changes in the nature and extent of significant risks, and the ability of the Group to respond to changes in its business and the external environment;

(c) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and the work of its internal audit function and other assurance providers, if any;

(d) the extent and frequency of communication of monitoring results to the Board for the purposes of assessing the adequacy and the effectiveness of the risk management and internal control systems of the Group; and

(e) significant control failings or weaknesses identified during the review of the risk management and internal control systems, 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 financial performance or condition of the Company, and any remedial measures taken to address such control failings or weaknesses;

8.1.8 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;

8.1.9 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;

8.1.10 to review the financial and accounting policies and practices of the Company and its subsidiaries;

8.1.11 to review the statement of the Board on the effectiveness of the Group's risk management and internal control systems (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions) prior to endorsement by the Board;

8.1.12 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;

8.1.13 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

8.1.14 to report to the Board on the matters in this paragraph headed "8. Duties";

8.1.15 to consider other topics, as defined by the Board;

8.1.16 to make recommendations to the Board as it deems appropriate on any area within its scope of duties where action or improvement is needed;

Relationships with the employees of the Company

8.1.17 to review arrangements employees of the Company and its subsidiaries can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

8.1.18 to act as the key representative body for overseeing the Company's relations with the external auditor; and

8.1.19 to establish a whistleblowing policy and system for employees and those who deal with the Company or its subsidiaries (e.g. customers and suppliers) to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company or its subsidiaries.

8.2 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

9. REPORTING PROCEDURES

9.1 Full minutes of the Committee's meetings should be recorded and kept by the Committee Secretary and shall be available for inspection at any reasonable time on prior reasonable notice by any Director.

9.2 Draft and final versions of minutes of meetings should be sent to all Committee members for their comments and records respectively, within a reasonable time after such meetings.

9.3 The Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless prohibited by applicable laws and regulations.

10. TERMS AVAILABLE

The Committee shall make available these terms of reference, explaining its role and the authority delegated to it by the Board, on request and by including them on The Stock Exchange of Hong Kong Limited's website and the Company's website.