

潮州三環（集團）股份有限公司
CHAOZHOU THREE-CIRCLE (GROUP) CO., LTD.

Terms of Reference for
the Audit Committee of the Board
(Draft)
(Applicable upon Issuance and Listing of H Shares)

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CHAOZHOU THREE-CIRCLE (GROUP) CO., LTD.

Terms of Reference for the Audit Committee of the Board

Chapter 1 General Provisions

Article 1

In order to strengthen the scientific decision-making of the board of directors of Chaozhou Three-Circle (Group) Co., Ltd. (the “**Company**”) to raise the standard of decision-making, perform pre-audit and professional audit, so as to ensure the board of directors’ effective supervision over senior management and to enhance the corporate governance structure, the Company has established the audit committee under the board of directors (the “**Audit Committee**”) and formulated these terms of reference in accordance with relevant laws, regulations, normative documents and securities regulatory requirements of the place where the Company’s shares are listed including the Company Law of the People’s Republic of China, the Code of Corporate Governance for Listed Companies, the Self-regulatory Guidelines for the Companies Listed on the Shenzhen Stock Exchange No. 2 — Standardized Operation of Listed Companies on the ChiNext Market, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”) and the Articles of Association of Chaozhou Three-Circle (Group) Co., Ltd. (the “**Articles of Association**”) and other relevant requirements.

Article 2

The Audit Committee is a specialised working body established by the board of directors in accordance with the Articles of Association, which is responsible for the communication, supervision and examination work in relation to the Company’s internal and external audits.

Chapter 2 Composition of the Committee

- Article 3** The Audit Committee shall comprise at least three non-executive directors, who are not serving as the senior management of the Company, the majority of whom shall be independent directors and at least one independent director shall be an accounting professional possessing appropriate professional qualifications or accounting or related financial management expertise, satisfying the qualification requirements of stock exchanges of the place where the Company's shares are listed in relation to financial experts of the Audit Committee.
- Article 4** Members of the Audit Committee shall be nominated by the chairman of the board of directors, not less than one-half of independent directors, or not less than one-third of all directors, and shall be elected by the board of directors.
- Article 5** The Audit Committee shall have one chairman, who is an independent director (being an accounting professional), responsible for convening meetings of the Committee and presiding over the work of the Committee; the chairman shall be elected from among the members of the Committee and shall be subject to the approval of the board of directors.
- Article 6** The Audit Committee shall have the same term of office as that of the board of directors. After the term expires, members of the Committee can be re-elected but the member who is an independent director may not serve for more than six consecutive years. If any member ceases to be a director of the Company during the term of office or no longer possesses the independency as required by the Articles of Association or the Hong Kong Listing Rules, he/she automatically loses his/her membership of the Committee, and the board of directors shall fill the vacancy in accordance with the provisions of Articles 3 to 5 above.
- If the resignation of a member of the Audit Committee causes the number of members to fall below the required quorum or results in the absence of an accounting professional, the incumbent members shall continue to perform his duties until a new member assumes office.

Where the composition of the Audit Committee fails to meet the requirements under Article 3 and Article 5 of these terms of reference, the board of directors shall immediately notify The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and make an announcement to specify details and reasons for the failure to meet the requirements in accordance with the Hong Kong Listing Rules. Such non-compliance shall be rectified within three months from the date of non-compliance the relevant requirements in accordance with Article 3 to Article 5 of these terms of reference. The term of office of any supplementary member shall last until the end of the term of office of such director.

Article 7

The Company shall provide the Audit Committee with necessary working conditions and equip with specialised personnel or organisations to assist with the Audit Committee’s routine work, such as work liaison, meeting organisation, material preparation and file management. When the Audit Committee performs its duties, the Company’s management and relevant departments shall cooperate.

Directors and senior management shall truthfully provide relevant information and materials to the Audit Committee, and shall not obstruct the Audit Committee in exercising its functions and powers.

The Audit Committee shall be provided with sufficient resources to perform its duties. Any expenses necessary for the Audit Committee to exercise its functions and powers shall be borne by the Company.

Chapter 3 Responsibilities and Authorities

Article 8

Major responsibilities of the Audit Committee shall include:

- (I) To supervise and evaluate the work of external auditing firm
 - 1. to be responsible for making recommendations to the board of directors on the appointment, reappointment and change of the external auditing firm, and provide suggestions to the board on the remuneration and terms of engagement of the external auditing firm, to handle any matters in relation to the resignation or dismissal of such auditing firm;

2. to review and monitor the independence and objectivity of the external auditing firm and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditing firm the nature and scope of the audit and the relevant reporting obligations before the audit commences;
3. to formulate and implement policies on engaging external auditing firm to provide non-audit services. For the purpose of this requirement, “external auditing firm” includes any entity that is under common control, ownership or management with the auditing firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the auditing 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.

(II) To review financial information of the Company

To monitor integrity of the Company’s financial statements and annual reports and accounts, half-year reports and quarterly reports (if intend to issue), and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus primarily on:

1. any changes in accounting policies and practices;
2. major judgmental areas;
3. significant adjustments resulting from audit;
4. the going concern assumptions and any qualifications;
5. compliance with accounting standards;

6. compliance with the regulatory requirements, laws and regulations of the place where the Company's Shares are listed.

Regarding item (II) of this article, members of the Audit Committee should liaise with the Board and senior management. The Audit Committee must meet, at least twice a year, with the external auditing firm of the Company. The Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and 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 department or external auditing firm.

(III) To supervise the financial reporting system, risk management and internal control system of the Company

1. to review the Company's financial controls and to review the Company's risk management and internal control system and the risk management system;
2. to discuss the risk management and internal control system with management to ensure that management has performed its duty to have an effective system. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;
3. to consider major investigation findings on risk management and internal control matters as delegated by the board of directors or on its own initiative and management's response to these findings;
4. 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;

5. to review the financial and accounting policies and practices of the Company and its subsidiaries;
6. to review the external auditing firm's management letter, any material queries raised by the external auditing firm to management about accounting records, financial accounts or systems of control and management's response;
7. to ensure that the Board will provide a timely response to the issues raised in the external auditing firm's management letter;
8. to review the following arrangements of the Company: employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, 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 actions by the Company;
9. to act as the key representative body for overseeing the Company's relations with the external auditing firm;
10. to report to the board of directors for the abovementioned matters and other matters as mentioned under provision D.3.3 (and its provision as amended from time to time) under Appendix C1 of the Hong Kong Listing Rules;
11. to consider other topics, as defined by the board of directors.

(IV) to exercise the functions and powers of the board of supervisors as stipulated in the Company Law, including:

1. examining the financial affairs of the Company;
2. supervising the conduct of directors and senior management in the performance of their duties;
3. requiring directors and senior management to correct their conduct if such conduct damages the interests of the Company;
4. proposing to convene extraordinary meetings of the board of directors;
5. proposing to convene extraordinary general meetings, and convening and presiding over the shareholders' meeting when the board of directors fails to perform the duties of convening and presiding over the shareholders' meeting as required under the Company Law and the Articles of Association;
6. presenting proposals to the shareholders' meetings;
7. accepting requests from shareholders to file a lawsuit against directors and senior management other than members of the Audit Committee who cause losses to the Company for violation of the requirements of the laws, administrative regulations or the Articles of Association during the performance of their duties;

(V) other matters as prescribed by laws, administrative regulations, securities regulatory rules of the place where the Company's Shares are listed, the Articles of Association and these terms of reference as well as other matters authorised by the board of directors.

Article 9

The Audit Committee is responsible for the review of the Company's financial information and its disclosure, supervision and evaluation of internal and external audit as well as internal control. The following matters shall be submitted to the board of directors for consideration, subject to the approval of the majority of all members of the Audit Committee:

- (I) disclosure of financial information and internal control evaluation report in financial and accounting reports and periodic reports;
- (II) engagement or dismissal of the accounting firm in charge of the audit matters of the Company;
- (III) engagement or dismissal of the chief financial officer of the Company;
- (IV) changes to accounting policies, accounting estimates or corrections of major accounting errors for reasons other than changes in accounting standards;
- (V) other matters prescribed by laws, administrative regulations, securities regulatory rules of the place where the Company's Shares are listed and the Articles of Association.

Review opinions approved at the Audit Committee meetings shall be submitted to the board of directors of the Company in writing. If the board of directors does not adopt the proposal of the Audit Committee on matters within its duties, the Company shall disclose such matters and specify the reasons on good grounds.

Article 10

The Audit Committee shall perform the following main duties while guiding and supervising the work of the internal audit department:

- (I) to guide and supervise the establishment and implementation of the internal audit system;
- (II) to review the annual internal audit plan of the Company;
- (III) to supervise the implementation of internal audit plan of the Company;

- (IV) to direct the effective operation of the internal audit department, the internal audit department of the Company shall report to the Audit Committee, and all types of audit reports, plans for the rectification of audit issues and the status of rectification submitted by the internal audit department to the management shall be submitted to the Audit Committee at the same time;
- (V) to report to the board of directors the progress and quality of the internal audit work and the material problems found;
- (VI) to coordinate the relationship between the internal audit department and external auditors, such as accounting firms and national auditors.

The internal audit department shall report to the Audit Committee. Any audit reports, plans for rectification of audit issues and rectification progress submitted by the internal audit department to the management shall be forwarded to the Audit Committee while being submitted. The internal audit department shall immediately and directly report any relevant significant issues or leads found to the Audit Committee.

Article 11

The Audit Committee shall review the Company's financial and accounting reports, provide opinions on the truthfulness, accuracy and completeness of the financial and accounting reports, with a focus on major accounting and auditing issues in the financial and accounting reports, pay special attention to the possibility of fraud, malpractices and major misstatements related to the financial and accounting reports, and supervise the rectification of issues in financial and accounting reports.

In case of financial fraud, material accounting errors and other issues, the Audit Committee shall require the listed company to correct the relevant financial data when passing a prior resolution, in which case the Audit Committee shall not approve the reports until the correction is completed.

If a member of the Audit Committee cannot guarantee the truthfulness, accuracy and completeness of the financial information in the periodic reports or has any objections, he/she shall vote against or abstain from voting when the Audit Committee reviews the periodic reports.

Article 12

The Audit Committee shall make recommendations to the board of directors regarding the appointment or replacement of the external auditor and review the audit fees and engagement contracts for the external auditors, ensuring that these decisions are made without undue influence from the Company's substantial shareholders, de facto controllers or directors, and senior management. Where the board of directors holds dissenting views on the selection, appointment, resignation or removal of external auditors by the Audit Committee, the Company shall include a statement explaining the recommendation of the Audit Committee and the reasons for the board of directors to hold dissenting views in its corporate governance report.

Article 13

The Audit Committee shall urge the external auditors to be honest, trustworthy and diligent, to strictly comply with business regulations and industry self-regulatory standards, to strictly implement the internal control system, to inspect and verify the Company's financial accounting reports, to exercise special care in their duties and to provide professional opinions with due prudence.

Article 14

The Audit Committee shall oversee the engagement of external auditors and perform the following duties:

- (I) formulate policies, procedures and relevant internal control systems for the selection and engagement of external auditors in accordance with the authorisation of the board of directors;
- (II) propose the initiation of the selection and engagement process for external auditors;
- (III) review the selection and engagement documents, determine evaluation criteria and specific scoring standards, and supervise the selection and engagement process;

- (IV) make recommendations to the board of directors regarding the selection of external auditors and the audit fees, and submit such proposals for board resolutions;
- (V) be responsible for other matters relating to the selection and dismissal of external auditors as prescribed by applicable laws, regulations, the Articles of Association, and as authorised by the board of directors.

Article 15

The Audit Committee shall supervise the internal audit department to review the following matters, prepare a review report and submit to the Audit Committee at least once every half year. The Audit Committee shall timely report to the governing bodies of the place where the Company's shares are listed any non-compliance or non-standard operation as it identified and procure the Company to make disclosure in respect thereof:

- (I) implementation of significant matters including use of raised proceeds, provision of guarantees, related party (connected) transactions, securities investment, derivative transactions and other high-risk investments, provision of financial assistance, purchase or sale of assets, and external investment;
- (II) large capital flows of the Company and the capital transactions with directors, senior management, controlling shareholders and de facto controllers and their respective related parties/connected persons.

Article 16

There is an audit working group under the Audit Committee, which is responsible for making the necessary preliminary preparations for the decisions of the Audit Committee, and collecting and providing the following materials in relation to the audit:

- (I) the relevant financial reports of the Company;
- (II) the audit reports of the internal auditors and external auditors;
- (III) the external audit contracts and the relevant work reports;

- (IV) the disclosure of information of the Company to the public;
- (V) the audit reports on the material and related party (connected) transactions of the Company;
- (VI) other relevant matters.

Article 17

In case the Audit Committee discovers any unusual operation of the Company, the Audit Committee may carry out investigation and, when necessary, may engage intermediary institutions to assist its work, the relevant expense incurred shall be borne by the Company.

Article 18

The Audit Committee shall supervise the actions of directors and senior management in terms of compliance with laws and regulations, regulatory requirements of stock exchanges of the place where the Company's shares are listed, the Articles of Association, and the performance of their duties. It can require directors and senior management to submit reports on their performance of duties.

The Audit Committee, upon discovering that directors or senior management have violated laws and regulations, regulatory requirements of stock exchanges of the place where the Company's shares are listed or the Articles of Association, shall notify the board of directors or report to the shareholders' meeting, and promptly disclose the information. It can also directly report to the regulatory authorities.

Article 19

The Audit Committee shall be accountable to the board of directors, and the proposals of the Committee shall be submitted to the board of directors for consideration and approval.

Chapter 4 Rules of Procedures

Article 20

Meetings of the Audit Committee shall include regular meetings and extraordinary meetings. Regular meetings shall be held at least four times a year and one meeting shall be held in each quarter, and extraordinary meetings may be convened upon the proposal of two or more members or whenever the chairman thinks it is necessary.

- Article 21** The Audit Committee meeting(s) shall be convened and presided over by the chairman. If the chairman is unable or fails to perform his/her duties, one of the other independent directors shall convene and preside over such meetings.
- Article 22** To hold an Audit Committee meeting, the notice of the time and venue of the meeting and the matters to be considered thereat shall be sent to all members three days before the meeting is held.
- Article 23** An Audit Committee meeting may only be held if not less than two-thirds of the members are present. Each member has one vote. Resolutions made at the meeting shall be approved by more than half of all members.
- Article 24** Votes at the Audit Committee meetings shall be made by a show of hands or by poll. The Audit Committee meetings may be convened by way of on-site or correspondence voting or a combination of both methods.
- Article 25** Directors, senior management and other staff members of the Company's audit, finance and legal functions who are not affiliated with the Audit Committee may be invited to attend the Audit Committee meeting, as and when necessary.
- Article 26** The Audit Committee may engage an intermediary institution to provide professional advice to support its decision-making, at the Company's expense, if necessary.
- Article 27** Where an agenda item relating (connecting) to a member is to be discussed at the Audit Committee meeting, such related (connected) member shall abstain from attending the meeting in respect thereof. When a valid opinion cannot be formed by deliberation due to members of the Audit Committee in absence, the relevant matter shall be considered by the board of directors directly.
- Article 28** The procedures for convening a meeting, method of voting and passing of resolutions at the Audit Committee meeting shall conform with the relevant laws, regulations, regulatory requirements of stock exchanges of the place where the Company's shares are listed, the Articles of Association and these terms of reference.

Article 29

The meeting minutes of the Audit Committee shall be kept. The meeting minutes of the Audit Committee shall be true, accurate and complete, fully reflecting the opinions raised by the attendees on the matters considered, and recorded therein the views and opinions expressed by the independent directors. Members present at a meeting shall sign the minutes. The meeting minutes of the Audit Committee shall be properly maintained for at least 10 years as an important archive of the Company.

Draft and final versions of the meetings minutes should be sent to all committee members within a reasonable time after the meeting for their comment (draft) and records (final versions).

Article 30

Resolutions passed and voting results at the meetings of the Audit Committee shall be reported to the board of directors in writing.

Article 31

Members and relevant persons present at the meeting shall be obliged to keep confidential all matters discussed, and shall not disclose any relevant information to any person without authorisation unless it is considered and approved by the shareholders' meeting or the board of directors and disclosed to the public, except for statutory reasons or by mandatory order of a competent authority.

Chapter 5 Supplementary Provisions**Article 32**

Unless otherwise specified, terms used in these terms of reference have the same meanings as those used in the Articles of Association. Unless otherwise expressly specified in relevant laws, administrative regulations and regulatory requirements of the place where the Company's shares are listed, the meaning of "independent directors" used in these terms of reference has the same meaning as "independent non-executive directors" under the Hong Kong Listing Rules.

Article 33

From the date upon these terms of reference are considered and approved by the board of directors, these terms of reference shall come into effect upon listing of H shares of the Company in the initial public offering on The Stock Exchange of Hong Kong Limited. Upon these terms of reference become effective, the original terms of reference for the Audit Committee of the board of directors of Chaozhou Three-Circle (Group) Co., Ltd. shall vest automatically.

Article 34

The term “not less than” and “at least” as used in these terms of reference shall include the number itself.

Article 35

For matters not covered in these terms of reference, implementation of which shall be subject to the provisions of the PRC’s applicable laws, regulations, normative documents, regulatory requirements of the place where the Company’s shares are listed and the Articles of Association. In the event that these terms of reference contradict to the provisions of the applicable laws, regulations, normative documents, regulatory requirements of the place where the Company’s shares are listed and the Articles of Association, the relevant provisions of the applicable laws, regulations, normative documents, regulatory requirements of the place where the Company’s shares are listed and the Articles of Association shall prevail. In case of any conflict between these terms of reference and any future laws, regulations and normative documents of the PRC, regulatory requirements of the place where the Company’s shares are listed or the Articles of Association as amended by legal procedures, the relevant PRC’s laws, regulations, normative documents, regulatory requirements of the place where the Company’s shares are listed and the Articles of Association shall prevail, and these terms of reference shall be amended immediately and submitted to the board of directors for approval.

Article 36

The right of interpretation regarding these terms of reference shall belong to the board of directors.

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