

Wei Yuan Holdings Limited
偉源控股有限公司
(incorporated under the laws of Cayman Islands with limited liability)
(Stock Code: 1343)
(the “**Company**”)

TERMS OF REFERENCE
OF
THE AUDIT COMMITTEE
(the “**Committee**”)

Membership

1. The Committee shall be appointed by the board of directors of the Company (the “**Board**”) from amongst the non-executive directors of the Company and shall consist of not less than three members, at least one of whom shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
2. The majority of the members of the Committee shall be independent non-executive directors of the Company.
3. The Chairman of the Committee shall be appointed by the Board and shall be an independent non-executive director of the Company.
4. The appointment of the members of the Committee may be revoked and new members can be appointed in their stead by resolutions passed by the Board.
5. No alternate member of any member of the Committee can be appointed.
6. A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Company's audit committee for a period of two years commencing on the date of his ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is the later.
7. The Company Secretary of the Company shall be the secretary of the Committee.
8. The composition of the Committee shall comply with the requirements of the Listing Rules as amended from time to time.

Attendance at meetings

9. The Chief Financial Officer of the Company (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors of the Company shall normally attend meetings of the Committee. Other members of the Board may be invited to attend a particular meeting in order to answer specific points or concerns of the Committee. Where an internal audit function exists, the head of internal audit should normally attend meetings. At least once a year the Committee shall meet with the external and internal auditors (if any) in the absence of any executive directors of the Company.

Frequency and proceedings of meetings

10. Meetings shall be held not less than twice a year. Additional meetings should be held as and when the work of the Committee demands.
11. Notice of any meetings shall be given to all members of the Committee at least seven days before the meeting, unless all members of the Committee unanimously waive such notice. The notice of meeting shall state the date, time and venue of the meeting. An agenda together with any other documents which may be required to be considered by the members of the Committee shall also attach to the notice.
12. The Chairman of the Committee may convene additional meetings at his discretion.
13. The external auditors may request a meeting with the Committee if they consider it necessary.
14. The quorum of a meeting shall be two independent non-executive directors. The members of the Committee may attend the meetings in person, by telephone or by video conference.
15. Proceedings of meetings of the Committee shall be governed by the relevant provisions of the articles of association of the Company (as amended from time to time).

Authority

16. The Committee is granted the authority to investigate any activity within these terms of reference and to direct all employees to cooperate as requested by members of the Committee.
17. The Committee is authorised by the Board to obtain external legal or other independent professional advice if required by the Committee and to invite the attendance of outsiders with relevant experience and expertise if it considers necessary.
18. The Committee shall report to the Board on any suspected fraud and irregularities, failures of internal control or suspected breaches of laws, rules and regulations which come to its attention in relation to the matters set out in these terms of reference and which are of sufficient importance to warrant the attention of the Board.

19. The Committee is to be provided with sufficient resources to discharge its duties.

Responsibility

20. The Committee is to serve as a focal point for communication between other directors, the external auditors and the internal auditors (where an internal audit function exists) of the Company as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other financial and accounting matters as the Board determines from time to time.
21. The Committee is to assist the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company and its subsidiaries (the “**Group**”), overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time.

Duties, powers and functions

22. The Committee is to:
- (a) 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;
 - (b) 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 external auditor the nature and scope of the audit and reporting obligations before the audit commences;
 - (c) 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;
 - (d) 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:-
 - (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 other legal requirements in relation to financial reporting;
- (e) regarding (d) above, (i) members of the Committee should liaise with the Board and senior management of the Company and the Committee must meet, at least twice a year, with the Company's auditors; and (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting financial reporting function, compliance officer or auditors;
- (f) 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;
- (g) discuss the risk management and internal control system 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;
- (h) 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;
- (i) 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;
- (j) review the Group's financial and accounting policies and practices;
- (k) 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;
- (l) ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) report to the Board on the matters in this paragraph 22;
- (n) be familiar, through the individual efforts of its members, with the financial reporting principles and practices applied by the Group in preparing its financial statements;

- (o) review annually the external auditors' fees which have been negotiated with management of the Company;
- (p) ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity;
- (q) review and consider the budget or revised budget of the Company prepared by the Board;
- (r) evaluate the level of cooperation provided by the Company to the external auditors, including their access to all requested records, data and information; obtain comments from management of the Company regarding the responsiveness of the external auditors to the Group's needs; make enquiries with the external auditors as to whether there has been any disagreements with management of the Company which if not satisfactorily resolved would result in the issue of a qualified report on the Group's financial statements;
- (s) when the external auditors supply a substantial volume of non-audit services to the Group, to keep the nature and extent of such services under review, and to ensure balance the maintenance of objectivity and value for money;
- (t) recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (u) meet with the external auditors of the Company, at least annually, in the absence of the management of the Company, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditors may wish to raise;
- (v) review arrangements employees of the Company 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;
- (w) act as the key representative body for overseeing the company's relations with the external auditor;
- (x) to report to the Board on the matters set out in the Corporate Governance Code and Corporate Governance Report (Appendix 14 to the Listing Rules);
- (y) establish a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns in confidence, with the Committee about possible improprieties in any matter related to the Company; and
- (z) consider other topics, as defined or assigned by the Board from time to time.

Annual General Meeting

23. The Chairman of the Committee or in his/her absence, another Committee member or failing this, the duly appointed delegate of the Chairman, shall attend the Company's annual general meeting to answer shareholders' questions on the Committee activities.

Reporting Procedures

24. The Committee should report to the Board on a regular basis on its decisions or recommendations.
25. Full minutes of the meetings of the Committee shall be kept by the secretary of the Committee, who shall send draft and final versions of minutes of meetings and all written resolutions of the Committee to all members of the Committee for their comment and record respectively, in both cases within a reasonable time after the meeting.
26. At the next meeting of the Board following a meeting of the Committee, the Chairman of the Committee shall report to the Board on the findings and recommendations of the Committee. At least once annually, the Committee should present a report in writing to the Board which addresses the work and findings of the Committee during the year.