

SANSHENG HOLDINGS (GROUP) CO. LTD. (the “Company”)

Audit Committee - Terms of Reference (Revised on 31 December 2018)

INTRODUCTION

Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), every issuer must establish an audit committee comprising non-executive directors only. The board of directors of the issuer must approve and provide written terms of reference for the audit committee which clearly establish the committee’s authority and duties.

The Company’s audit committee (the “**Committee**”) has been established since 26 August 2013.

TERMS OF REFERENCE

1. Membership

- 1.1 The Committee shall comprise a minimum of three members (the “**Member(s)**”). All of whom should be non-executive directors of the Company and a majority of whom must be independent non-executive directors of the Company (“**INED(s)**”). At least one of the Members should be an INED with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.
- 1.2 The Members shall be appointed by the board of directors of the Company (the “**Board**”) from time to time.
- 1.3 The Chairman shall be an INED Member appointed by the Board.
- 1.4 A former partner of the Company’s existing auditing firm is prohibited from acting as a Member for a period of two years from the later of (a) the date of his/her ceasing to be a partner of the firm; or (b) the date of his/her ceasing to have any financial interest in the firm.
- 1.5 The company secretary of the Company shall be the secretary of the Committee (the “**Secretary**”).

2. Attendance at Meetings

- 2.1 At the invitation of the Committee, the Chairman of the Board, external advisers and other persons with relevant knowledge, experience and expertise (including without limitation, staff responsible for accounting and financial reporting functions) may attend all or part of any meetings of the Committee (the “**Meetings**”).
- 2.2 At least twice a year the Committee shall meet with the external auditor without the presence of the executive Board members.
- 2.3 Only Members are entitled to vote at the Meetings.

3. Meetings

- 3.1 The Committee shall meet at least twice every year.
- 3.2 Notice of Meetings shall be given to all Members at least 7 days before a Meeting to be held, unless all Members unanimously waive such notice or consent to a short notice. Notice of Meeting may be given in writing or verbally (whether by telephone or otherwise) or in such other manner as the Board may from time to time determine.
- 3.3 The quorum of a Meeting shall be two.
- 3.4 Meetings can be held in person, by telephone or by video conference. Members may participate in a Meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the Meeting are capable of hearing each other.
- 3.5 Resolutions of the Committee at any Meetings shall be passed by a majority of votes of the Members present.
- 3.6 A resolution in writing signed by all the Members shall be as valid and effectual as if it had been passed at a Meeting duly convened and held and may consist of several documents in like form each signed by one or more of the Members.
- 3.7 Full minutes shall be kept by the Secretary. Draft and final versions of minutes of the Meetings shall be circulated to all Members for their comment and records respectively within a reasonable time after the Meeting.
- 3.8 The articles of association of the Company regarding the meetings and proceedings of the directors shall apply to the Meetings and proceedings of the Committee so far as the same are applicable and are not inconsistent with the provisions in these terms of reference.

4. Role, Responsibilities and Powers

The Committee shall have the following role, responsibilities and powers:

Relationship with the Company's External Auditor

- 4.1 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;
- 4.2 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 external auditor the nature and scope of the audit and reporting obligations before the audit commences;

- 4.3 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;
- 4.4 to act as the key representative body for overseeing the Company’s relations with the external auditor;

Review of the Company’s financial information

- 4.5 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 shall 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; and
 - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- 4.6 regarding paragraph 4.5 above:
- (a) Members should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company’s external auditor; 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 external auditor;

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

- 4.7 to review the Company’s financial controls, risk management and internal control systems;
- 4.8 to 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;

- 4.9 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;
- 4.10 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;
- 4.11 to review the financial and accounting policies and practices of the Company and its subsidiaries;
- 4.12 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;
- 4.13 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 4.14 to review arrangements employees of the Company may use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- 4.15 to report to the Board on the matters set out in the terms of reference of the Committee;
- 4.16 to consider any other matters specifically referred to the Committee by the Board;

Corporate Governance Duties

- 4.17 to develop and review the Company's policies and practice on corporate governance and make recommendations to the Board;
- 4.18 to review and monitor the training and continuous professional development of directors and senior management;
- 4.19 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- 4.20 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- 4.21 to review the Company's compliance with the corporate governance code under the Listing Rules and disclosure in the corporate governance report in the annual reports of the Company.

5. Authority

- 5.1 The Committee is authorized to investigate any activity within its terms of reference and seek any information which it requires from any employee and all employees are directed to cooperate with any request made by the Committee.
- 5.2 The Committee may access to independent professional advice at the expenses of the Company if necessary. The arrangement to seek professional advice can be made through the Secretary.
- 5.3 The Committee shall be provided with sufficient resources to perform its duties.

6. Reporting Responsibilities

- 6.1 The Committee shall report its decisions, findings and recommendations to the Board at the next meeting of the Board following a Meeting.