



GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1203)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

1. Constitution

The Board of Directors (the “Board”) of Guangnan (Holdings) Limited (the “Company”) hereby resolves to establish a Committee of the Board, to be known as the Audit Committee (the “Committee”).

2. Purpose

2.1 To assist the Board in discharging its duties, the purpose of the Committee is :-

- (i) to review the adequacy and effectiveness of the risk management, internal control and compliance procedures within the Company and its subsidiaries (the “Group”);
- (ii) to review the principles, policies and practices adopted in the financial reporting, the preparation of the Group’s accounts and annual financial statements for compliance with all statutory requirements; and
- (iii) to maintain an appropriate relationship with the Company’s external auditor.

2.2 The Committee has no executive powers with regard to its recommendations and does not relieve members of the Board of their respective responsibilities for financial reporting and corporate control.

3. Composition of the Committee

- 3.1 The Board shall appoint members of the Committee. The Committee shall consist exclusively of Non-Executive Directors, the number of whom shall be determined by the Board from time to time provided that at no time shall there be less than three members of the Committee. The majority of the Committee members must be Independent Non-Executive Director. Although no Executive Director may be a member, the Chief Financial Officer, the internal auditor and a representative of the external auditor shall normally be expected to attend meetings of the Committee when necessary. Other members of the Board shall also have the right of attendance. However, at least once a year, the Committee shall meet with the external auditor without any Executive Directors present.
- 3.2 The Committee shall appoint one of its members to serve as its Chairman who must be Independent Non-Executive Director. The appointment shall be subject to approval by the Board. The quorum of the Committee shall be two Committee members.
- 3.3 The Company Secretary shall act as secretary to the Committee unless the Chairman of the Committee shall rule otherwise, in which case the Chairman will nominate a member of the Committee or another appropriate person to act as secretary.
- 3.4 Full minutes of Committee meetings should be kept by a duly appointed secretary of the meetings. Draft and final versions of minutes of the committee meetings should be sent to all members of the Committee for their comment and records within a reasonable time after the meeting.
- 3.5 A former partner of the Company's existing audit firm should be prohibited from acting as a member of the 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 the later.

4. Meetings

- 4.1 Meetings shall be held not less than four times a year and at such other times as the Chairman of the Committee shall deem necessary.
- 4.2 The external auditor may request a meeting of the Committee as they shall deem necessary.

4.3 A meeting shall be held before the meetings of the Board which consider interim and full year results. The Chairman of the Committee will circulate minutes of the meetings and reports to all members of the Board. The Chairman of the Committee should be available to answer questions about its work at the Annual General Meeting of the Company.

5. Authority

5.1 The Committee is authorized by the Board to seek any information it requires from any employee of the Company and all employees are directed to co-operate with any request made by the Committee.

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

6. Duties of the Committee

In particular, but without limitation, the duties of the Committee shall be:

Relationship with the auditor

6.1 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;

6.2 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;

6.3 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;

6.4 to act as the key representative body for overseeing the Company's relations with the external auditor.

Review of the Company's financial information

6.5 to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgments 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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and legal requirements in relation to financial reporting;

6.6 Regarding 6.5 above:-

- (i) members of the Committee should liaise with the Board and senior management 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 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

6.7 to review the Company's financial controls, risk management and internal control systems;

6.8 to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

- 6.9 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;
- 6.10 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;
- 6.11 to review the Group's financial and accounting policies and practices;
- 6.12 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;
- 6.13 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.14 to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, 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;
- 6.15 to report to the Board on the matters in the code provisions regarding "Audit Committee" as stated in Appendix 14 of the Listing Rules; and
- 6.16 to consider other topics, as defined by the Board.

7 Others

- 7.1 The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the Stock Exchange's website and the Company's website.
- 7.2 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.
- 7.3 The Committee should be provided with sufficient resources to perform its duties.

- 7.4 In recognition of the time and effort required of the Committee's members in discharging the duties set out in Section 6 above, the Company shall remunerate Non-Executive Directors for serving on the Committee to reflect the time they devote to the Company's affairs. The remuneration shall be determined by the Board.

This Terms of Reference amended on 29 March 2019.