

These Procedures are prepared in English. In the event that there is any discrepancy or inconsistency between the English version and the Chinese version, the English version shall prevail.

SHING CHI HOLDINGS LIMITED

成志控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1741)

(the “**Company**”)

THE AUDIT COMMITTEE TERMS OF REFERENCE

These terms of reference of the Audit Committee (the “Committee”) have been prepared based on the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**” and the “**Exchange**” respectively).

Composition

1. The Committee is established by the board of directors of the Company (the “**Director(s)**” or “**Board**”) according to the articles of association of the Company (the “**Articles of Association**”) and the establishment would be effective from the date on which the shares of the Company are listed on the Exchange.

Members

2. The Committee members must be non-executive Directors of the Company to be appointed by the Board and the Committee shall consist of not less than three members. The majority of the members must be independent non-executive Directors (the “**INEDs**”) and at least one of whom shall have the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.
3. Chairman of the Committee shall be appointed by the Board and must be an INED.
4. A former partner of the Company’s existing auditing 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.

5. The Board may, from time to time, at their discretion, change the composition of the members of the Committee.

Secretary

6. The Committee may appoint the company secretary of the Company or any other person with appropriate qualification and experience as the secretary of the Committee. Full minutes of the meetings should be kept by the secretary.

Attendance at meetings

7. Except the Committee meeting as set out in Rule 9 below, members of the Committee shall attend designated meeting with the external auditing firm of the Company or other appropriate person upon their invitation from time to time so as to address the concerns raised by such external auditing firm or such other appropriate person in relation to audit of the Company.

Frequency and proceedings of meetings

8. The quorum for a Committee meeting shall be any two members who must be INEDs.
9. Meetings of the Committee shall be planned prior to the beginning of each financial year of the Company, and shall be not less than twice a year. The Committee must meet, at least twice a year, with the external auditors to discuss matters relating to the audit and any other related issues.
10. At least once a year, the Committee will meet the external auditor in the absence of management of the Company (unless otherwise invited by the Committee) to discuss matters relating to its audit fees or any other matters the external auditor may wish to raise.
11. The Committee may convene meetings when it deems appropriate in discharging its duties.
12. The Committee members could attend the meetings in person, by telephone or by video conference.
13. Resolutions of the Committee shall be passed by more than half of the members of the Committee.
14. 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.

15. Unless otherwise stated herein, proceedings of meeting of the Committee shall be governed by the relevant provisions of the Articles of Association (as amended from time to time).

Authority

16. The Committee has unrestricted access to the chairman of the Board, the Chief Financial Officer (or any officer(s) assuming the relevant functions but having a different designation), the external auditors and the internal auditors in order to discharge its duties.
17. All members of the Committee shall have access to the advice and services of the secretary with a view to ensuring that procedures of the Committee and all applicable rules and regulations are followed.
18. The Committee shall be provided with sufficient resources to perform its duties and may seek independent professional advice in appropriate circumstances at the Company's expenses to perform its duties.
19. The Committee is authorised by the Board:
 - (a) to investigate any activity within its terms of reference;
 - (b) to inspect all accounts, books and records of the Company;
 - (c) to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Committee.

Duties

20. Main duties of the Committees should include:-

Relationship with the external auditors

- (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) 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 process commences;

- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

Review of the Company's financial information

- (d) monitor integrity of the Company's financial statements, annual report and accounts, half-year report and, if prepared for publication, 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 Listing Rules and other legal requirements in relation to financial reporting;
- (e) Regarding (d) stated above, the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the external auditor; and consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, staff responsible for the accounting and financial reporting function, compliance officer or external auditors;

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

- (f) to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the issuer's risk management and internal control systems;
- (g) 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;
- (h) 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;
- (i) where an internal audit function exists, 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) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the external auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (n) to discuss problems and qualified opinion, if any, arising from the half-year and annual audit, and any matters the external auditor may wish to discuss (in the absence of management where necessary);
- (o) to 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 for appropriate follow-up action;

- (p) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (q) to report to the Board on the matters in this terms of reference;
- (r) to consider other topics, as defined or assigned by the Board from time to time, including but not limited to the following:
 - a. to review the internal controls and risk management systems of the Company, including the internal controls on bank account management and the monitoring of bank transactions on a quarterly basis in order to detect and prevent improper bank activities and transactions;
 - b. to review the report on bank account activities, material bank transactions and all incoming wire transfers on a quarterly basis to detect irregularities;
 - c. to report any irregularities (if any) to the Board immediately; and
 - d. to review findings of the Company's internal audit division from time to time.

Corporate Governance Functions

- (s) to develop and review the policies and practices of the Company on corporate governance and make recommendations to the Board;
- (t) to review and monitor the training and continuous professional development of directors and senior management;
- (u) to review and monitor the policies and practices on compliance with legal and regulatory requirements;
- (v) to develop, review and monitor the code of conduct applicable to employees and directors; and
- (w) to review the Company's compliance with the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report.

Reporting Procedures

21. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.
22. Full minutes and written resolutions should be kept by the secretary of the Committee. Draft and final versions of minutes of the meetings should be sent to all Committee members for their comments and records, within a reasonable time after the meeting. Written resolutions should be promptly sent to all Committee members for their records after the written resolutions are passed.
23. 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 works and recommendations of the Committee since the last Board meeting (if any). At least once annually, the Committee should present a report in writing to the Board which addresses the work of the Committee during the year.

Others

24. 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 Exchange's website and the Company's website.
25. Any changes to the terms of reference shall be effective after they have been approved by the Board.

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Adopted on 17 September 2018
First amended on 21 December 2018