

*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.*

## **LKS Holding Group Limited**

**樂嘉思控股集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(the “Company”)**

### **AUDIT COMMITTEE – TERMS OF REFERENCE**

#### **Constitution**

1. The board (the “**Board**”) of directors (the “**Directors**”) of LKS Holding Group Limited (樂嘉思控股集團有限公司) has resolved the establishment of the audit committee (the “**Committee**”) on 23 December 2016.

#### **Members and Secretary**

2. Members of the audit committee of the Company (the “**Audit Committee**”) shall be appointed by the board (the “**Board**”) of directors (the “**Directors**”) of the Company from amongst the non-executive Directors and shall consist of not less than three members, a majority of whom shall be independent non-executive Directors and at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise. GEM LR5.28
3. The Chairman of the Audit Committee must be an independent non-executive Director and shall be appointed by the Board. GEM LR5.28
4. The secretary of the Audit Committee (the “**Secretary**”) shall be appointed by the Board. The secretary will be the Company Secretary of the Company.
5. The appointment of the members and Secretary may be revoked, or additional members may be appointed to the Audit Committee by separate resolutions passed by the Board and the Audit Committee.
6. A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of 1 year from the date of his/her ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later. CGC C.3.2

#### **Proceedings of the meetings**

7. Unless otherwise agreed by all the Audit Committee members, a meeting of the Audit Committee shall be called by at least 7 clear days’ notice.
8. The Audit Committee may convene meetings when it deems appropriate in discharging its duties. Meetings of the Audit Committee shall be planned prior to the beginning of each financial year of the Company, and shall be not less than four times a year. A member of the Audit Committee may and, on the request of a member of the Audit Committee, the Secretary shall, at any time summon a meeting of the Audit Committee.

9. The quorum of the Audit Committee meeting shall be two members of the Audit Committee.
10. The Chief Financial Officer, the Head of Internal Audit (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors shall normally attend meetings of the Audit Committee. The executive Director shall also have the right of attendance. However, at least once a year the Audit Committee shall meet with the external auditors in the absence of the executive Director.
11. Members of the Audit Committee should liaise with the Board and senior management and the Audit Committee shall meet at least twice every year with the Company's auditors to consider the budget, revised budget and quarterly report prepared by the Board. The external auditors may request the Chairman of the Audit Committee to convene a meeting, if they consider that one is necessary.
12. Unless otherwise stated herein, proceedings of meeting of the Audit Committee shall be governed by the relevant provisions of the Articles of Association of the Company (as amended from time to time).

### **Annual general meeting**

13. The Chairman of the Audit Committee or in his/her absence, another member of the Audit Committee, shall attend the Company's annual general meeting and be prepared to respond to shareholders' questions on the Audit Committee's activities and their responsibilities.

### **Circulation of minutes and written resolutions**

14. Full minutes of the Audit Committee meetings should be kept by the Secretary. Draft and final versions of minutes of the Audit Committee meetings should be sent to all committee members for their comment and records within a reasonable time after the meeting. The minutes shall be confirmed by the Chairman of that particular meeting signing the same or confirmed by resolutions passed in the following Audit Committee meeting or Board meeting. All Directors shall, at any time, have access to the minutes of the committee meetings. CGC C.3.1
15. The Secretary shall circulate the minutes of meetings and all written resolutions of the Audit Committee to all members of the Board.
16. Written resolutions must be passed by all members of the Audit Committee.

### **Authority**

CGC C.3.6

17. The Audit Committee may exercise the following powers:
  - (a) to seek any information it requires from any employee of the Group and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend meetings of the Audit Committee and to supply information and answer questions raised by the Audit Committee;
  - (b) to monitor whether the Group's management has, in the performance of its duties, infringed any policies set by the Board or any applicable law, regulation and code

(including the Rules Governing the Listing of Securities on The Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”), the Listing Agreement and other rules and regulations from time to time laid down by the Board or a committee thereof);

- (c) to investigate all suspected fraudulent acts involving the Group and request management to make investigation and submit reports;
- (d) to review the Group’s internal control procedures and system;
- (e) to review the performance of the Group’s employees in the accounting and internal audit department;
- (f) to make recommendations to the Board for the improvement of the Group’s internal control procedures and system;
- (g) to request the Board to take all necessary actions, including convening an extraordinary general meeting, to replace and dismiss the auditors of the Group;
- (h) to obtain outside legal or other independent professional advice and to secure the attendance of independent third parties with relevant experience and expertise, if it considers this necessary or appropriate in discharging its duties; and
- (i) Where the Board disagrees with the Audit Committee’s view on the selection, appointment, resignation or dismissal of the external auditors, the Company shall include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view. CGC C.3.5

### **Responsibilities of the Audit Committee**

18. The Audit Committee shall:

- (a) make recommendations to the Board on the appointment, reappointment and removal of the external auditor, consider the external auditors’ proposed audit fees, approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; CGC C.3.3(a)
- (b) review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; CGC C.3.3(b)
- (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 Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed; CGC C.3.3(c)
- (d) monitor integrity of the Company’s financial statements and the annual report and accounts, half-year report, quarterly reports, and to review significant financial CGC C.3.3(d)

reporting judgments contained in them, focusing particularly on:

- (i) any changes in accounting policies and practices adopted by the Group;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards;
  - (vi) compliance with the GEM Listing Rules and legal requirements in relation to financial reporting;
  - (vii) the fairness and reasonableness of any connected transaction/ continuing connected transaction and the impact of such transaction on the profitability of the Group;
  - (viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosure gives a true and fair view of the Group's financial conditions; and
  - (ix) the cashflow position of the Group;
- (e) Regarding (d) above: CGC C.3.3(e)
- (i) liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
  - (ii) consider any significant or unusual items that are, or may need to be, reflected in the report and accounts and 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;
- (f) discuss problems and reservations arising from the interim limited review and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
- (g) review and supervise the financial reporting process, review the financial information of the Group, oversee the Group's financial controls, internal control procedures and risk management systems; CGC C.3.3(f)
- (h) discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. 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; CGC C.3.3(g)
- (i) 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; CGC C.3.3(k)

- (j) review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (k) (where an internal audit function exists) review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness; CGC C.3.3(i)
- (l) prepare work reports for presentation to the Board and to prepare summary of work reports for inclusion in the Group's interim and annual reports;
- (m) consider the Board's recommendation of the appointment of any person to be an audit committee member, a company secretary, auditors and accounting staff either to fill a casual vacancy or as an additional audit committee member, company secretary, auditors and accounting staff or the Board's recommendation for the dismissal of any of them;
- (n) consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings; CGC C.3.3(h)
- (o) review the Group's financial and accounting policies and practices; CGC C.3.3(j)
- (p) ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; CGC C.3.3(i)
- (q) directly report to the Board on the matters in these terms of reference, and on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements); CGC C.3.3(m)
- (r) 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 Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions; CGC C.3.7(a)
- (s) act as the key representative body for overseeing the Company's relations with the external auditor; CGC C.3.7(b)
- (t) 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);
- (u) set the scope for internal control review;
- (v) to meet with the auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters that the auditor may wish to raise; CGC C.3.3.1.(iii)
- (w) obtain from the audit firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant CGC C.3.3.1.(ii)

requirements, including those for rotation of audit partners and staff; and

- (x) consider other matters, as defined or assigned by the Board from time to time. CGC C.3.3(n)

### **Voting rights of the Audit Committee**

19. The Audit Committee has the following veto rights. The Group cannot implement any of the following matters which has been vetoed by the Audit Committee:
- (a) to approve any connected transaction within the meaning of the GEM Listing Rules which requires an independent shareholders' vote (unless the approval of such connected transaction is made conditional on the obtaining of the approval of the independent non-executive Directors and the independent shareholders); and
  - (b) to employ or dismiss the Group's financial controller or the internal audit manager.

### **The articles of association of the Company**

20. These terms of reference shall not prevail the articles of association of the Company, in particular for the provisions where a Director is not allowed to vote in the case of conflicts of interest.
21. The articles of association of the Company regulating the meetings and proceedings of the Directors, so far as the same are applicable and not inconsistent with the provisions of these regulations, shall apply to regulate the meetings and proceedings of the Audit Committee.

### **Powers of the Board**

22. The Board may, subject to compliance with the articles of association of the Company and the GEM Listing Rules, amend, supplement and revoke these regulations and any resolution passed by the Audit Committee provided that no amendments to and revocation of these regulations and the resolutions passed by the Audit Committee shall invalidate any prior act and resolution of the Audit Committee which would have been valid if these regulations or resolution had not been amended or revoked.

### **Address of communication, etc.**

23. Each of the Directors shall supply to the Secretary information as to his/her correspondence address, contact number and email address for the purpose of receiving notices (including but not limited to notice from the Board, nomination committee, remuneration committee, corporate governance committee and the Audit Committee) issued by the Company. The Secretary shall notify each of the Directors the correspondence address, contact number and email address of the other Directors.
24. Every notice and communication made pursuant to these terms of reference shall be dispatched or sent to each Director in the manner as stipulated in the articles of association of the Company
25. The date of notice and the date of the meeting shall be inclusive in the calculation of the notice period.

### **Alternate members**

26. A member of the Audit Committee may not appoint any alternate member.

### **Publication of the terms of reference**

27. The terms of reference of the Audit Committee will be posted on the websites of the Company and the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and will be made available upon request. CGC C.3.4