

# Red Star Macalline Group Corporation Ltd.

## Working Rules of the Audit Committee under the Board of Directors

(Revised in October 2018)

### Chapter 1 General Provisions

**Article 1** In order to strengthen the Company's internal supervision and risk control, improve the decision-making function of the Board of Directors (hereinafter referred to as the "**Board**"), make pre-audit and professional audit, ensure the Board's effective supervision over the management and improve the Company's governance structure, the Company has established an Audit Committee under the Board and formulated these Rules in accordance with the Company Law of the People's Republic of China, Articles of Association of Red Star Macalline Group Corporation Ltd. (hereinafter referred to as "**Articles of Association**"), Rules Governing the Listing of Stocks on Shanghai Stock Exchange (hereinafter referred to as "**SSE Listing Rules**"), Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (hereinafter referred to as "**Hong Kong Listing Rules**") and other relevant provisions.

**Article 2** As a specialized working body under the Board, the Audit Committee is mainly responsible for the Company's internal control construction and implementation thereof, internal audit, the implementation of internal audit system, risk management, and giving opinions on the appointment of external auditor and supervising its relationship with the Company, reviewing the Company's financial data and making judgment on the truthfulness, completeness and accuracy of the financial data.

### Chapter 2 Composition

**Article 3** The Audit Committee shall be composed of at least three non-executive directors, more than half of whom shall be independent non-executive directors, with one of them serving as chairman. At least one independent non-executive director shall have relevant professional qualifications meeting regulatory requirements, or shall have professional specialty in audit or related financial management (hereinafter referred to as "**Financial Professional**").

A former partner of the existing external auditor of the Company shall be prohibited from acting as a member of the Audit Committee for a period of two years from the date of his/her ceasing (whichever is later):

(I) to be a partner of the external auditor; or

(II) to have any financial interest in the external auditor.

**Article 4** The chairman and other members of the Audit Committee (collectively “**members**”) shall be nominated by the chairman of the Board, more than half of independent non-executive directors or more than one-third of all the directors, and shall be decided by the Board.

**Article 5** The Audit Committee shall have one chairman whose position shall be taken by an independent non-executive director and who shall be responsible for convening and presiding over the Audit Committee meetings.

**Article 6** The term of office of members of the Audit Committee shall be the same as that of members of the Board. A member may serve consecutive terms if re-elected upon the expiry of his/her term of office. Any member who no longer serves as director of the Company during the term or any member who is an independent non-executive director and no longer meets relevant independence requirements as specified in the Hong Kong Listing Rules shall automatically be disqualified as a member of the Audit Committee, and the Board shall fill the vacancy in accordance with Articles 3 to 5 above.

**Article 7** Where the number of members of the Audit Committee falls below the required minimum number specified in Articles 3 and 5 of these Rules, the Board shall, according to the SSE Listing Rules and the Hong Kong Listing Rules, immediately state relevant details and reasons by announcement, and fill the vacancy according to Articles 3-5 of these Rules within three months from the date when the number of members of the Audit Committee is less than the required minimum number. The term of office for the member filling the vacancy shall expire at the end of the term when he/she serves as director.

**Article 8** Under the Audit Committee, there is Internal Audit Department or Audit Team, which is an organization responsible for specific works, e.g. formulation and implementation of internal audit plan, production of internal audit report, daily work contacts, organization of meetings and other matters approved by the Audit Committee.

### **Chapter 3 Duties and Authorities**

**Article 9** The main duties and authorities of the Audit Committee include:

- (I) Proposing the appointment or replacement of the external auditors and being responsible for the communication between internal auditors and external auditors, including:
1. Making recommendations to the Board on the appointment, reappointment and removal of external auditors, approving the compensation and terms of engagement for external auditors, as well as handling any matters regarding the resignation or dismissal of such external auditors;
  2. Reviewing and monitoring the independence and objectivity of external auditors and the effectiveness of the auditing procedures in accordance with applicable standards; discussing the nature, scope of the audit and relevant reporting obligations with external auditors before the auditing work commences; and ensuring co-ordination where more than one audit firm is involved;
  3. Formulating policies on non-auditing services provided by external auditors and implementing such policies, and reporting and giving suggestions on any matters requiring actions or improvement to the Board;
  4. discussing problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss (in the absence of senior management where necessary).

(II) Reviewing the Company's financial data and disclosure thereof, including:

1. Monitoring integrity of the Company's financial statements, annual reports and accounts, interim reports, other periodic reports, agreed proceedings, audit reports (hereinafter referred to as the "**Materials**") and reviewing significant judgments on financial reporting set out in the Materials. Making judgments on the completeness, accuracy and truthfulness of the preparation and disclosure of the Company's financial reports;
2. Before submitting the Materials to the Board for decision, the Audit Committee should focus particularly on the following matters: any changes in accounting policies and practices, major accounting judgment, significant audit adjustments, the going concern assumptions and any qualifications, and compliance with accounting standards, any requirements from the Stock Exchange of Hong Kong Limited and any legal requirements in relation to financial reporting;
3. In regard to (1) and (2) above:
  - a. Considering any significant or unusual items that are, or may need to be, reflected in the report and accounts, and giving 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;
  - b. Liaising with the Board, senior management and external auditors; the Audit Committee must meet at least twice a year with the Company's external auditors.

(III) Monitoring the Company's risk management and internal control systems and financial reporting system, including:

1. overseeing and monitoring the risk management and internal control systems of the Company on an ongoing basis and reviewing with the Company's external auditors and senior management periodically, and ensuring that a review of the scope, adequacy and effectiveness of the Company's and its subsidiaries' and associated companies' at the relevant time (hereinafter referred to as the "**Group**") corporate accounting and financial controls, risk management and internal control systems, and any related significant findings regarding risks or exposures and considering recommendations for improvement of such controls is conducted at least annually. The review should cover all material controls, including financial, operational and compliance controls. In conducting the annual review, the Audit Committee should, in particular, consider:
  - a. the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
  - b. the scope and quality of senior management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
  - c. the extent and frequency of communication of monitoring results to the Audit Committee (or to the Board) which enables it to assess control of the Company and the effectiveness of risk management;
  - d. significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and

- e. the effectiveness of the Company's processes for financial reporting and the Hong Kong Listing Rules compliance.
2. Discussing with the management the risk management and internal control systems, to ensure that the management has performed its duty to establish and maintain effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes for its employees and budget in relation to the Company's accounting, internal audit and financial reporting functions;
3. Considering major investigation findings on risk management and internal control matters and the management's response to these findings as delegated by the Board or on its own initiative;
4. Reviewing the Company's internal audit function\* to ensure co-ordination within the Group and between the Company's internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;

\* *An internal audit function generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems so as to add value and improve the Company's operations. Internal audit function helps the Company to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Company may outsource the internal audit function to external competent independent third parties.*

5. Reporting to the Board any suspected frauds and irregularities, failures of the risk management and internal control systems or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board and review the findings of internal investigations into any suspected frauds or irregularities or failures of risk management and internal controls or infringements of laws, rules and regulations in relation to financial reporting;

6. Reporting to the shareholders it has conducted the review of the effectiveness of its risk management and internal control systems and the effectiveness of the internal audit function in the Corporate Governance Report and ensure other disclosure requirements in relation to how the Group has complied with the risk management and internal control systems code provisions as set out in the “Corporate Governance Code and Corporate Governance Report” of the Hong Kong Listing Rules are fulfilled;
7. Reviewing the Internal Audit Department’s annual plan and giving opinions on the internal auditors’ due diligence and performance appraisal;
8. Reviewing the financial and accounting policies and practices of the Group;
9. Reviewing the External Auditor’s Management Letter submitted by the external auditor to the Company, any material queries raised by the auditor to the management about accounting records, financial accounts or control systems and the management’s response;
10. Ensuring that the Board will provide a timely response to the issues raised in the External Auditor’s Management Letter submitted by the external auditor to the management;
11. Reporting to the Board on the matters specified under the Hong Kong Listing Rules;
12. Considering other topics, as defined by the Board.

(IV) Monitoring the Company's improprieties in financial reporting and internal control, including:

1. Reviewing the following arrangements of the Company: Arrangements by which the Company's employees can report, in confidence, to the Audit Committee any possible improprieties of the Company in financial reporting, risk management and internal control or other matters; ensuring that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions;
2. Acting as the key representative body for overseeing the Company's relation with the external auditor;
3. Formulating whistleblowing policy and system to enable the Company's employees and others having connections with the Company (e.g. clients and suppliers) can raise, in confidence, any concerns to the Audit Committee about possible improprieties of the Company.

(V) Failure to reach an agreement regarding external auditors:

1. Where the Board has taken a different view from the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors, the Audit Committee shall submit a statement to the Company explaining its recommendation, which statement will be disclosed by the Company in the Corporate Governance Report in accordance with Appendix 14 of the Hong Kong Listing Rules.

(VI) Performing corporate governance duties, including:

1. Formulating and reviewing the Company's corporate governance policies and practices and making proposals to the Board;
2. Reviewing and monitoring the training and continuing professional development of directors and senior management;

3. Reviewing and monitoring the Company's policies and practices in relation to compliance with laws and regulations;
  4. Formulating, reviewing and monitoring the code of conduct and compliance manual (if any) for the employees and directors;
  5. Reviewing the Company's compliance with the Hong Kong Listing Rules and disclosure in the Corporate Governance Report;
- (VII) Reviewing the scientificity, rationality, effectiveness and implementation of internal control systems of the Company and various subsidiaries and branches, and giving suggestions on the liability investigation of violators;
- (VIII) Reviewing major connected transactions upon the commission of the Board;
- (IX) Reviewing other matters specified by laws, regulations, normative documents, Hong Kong Listing Rules, the securities regulatory authority in Hong Kong, Articles of Association, as well as matters provided in rules of procedure for the board meetings or authorized by the Board.

**Article 10**

The Audit Committee shall be accountable to the Board. The Audit Committee shall submit its proposals to the Board for consideration and decision, and shall report to the Board at least once a quarter, with relevant contents including but not limited to the processing and quality of internal audit and major issues found. The Audit Committee shall act in unison with the Supervisory Committee in supervisory audit activities.

**Article 11**

The chairman of the Audit Committee shall attend the Company's annual general meeting and answer shareholders' questions about the Committee's duties. If the chairman of the Committee is unable to attend the annual general meeting, other member or appropriately appointed representative shall attend the meeting on his/her behalf.

## **Chapter 4 Decision-making Procedures**

### **Article 12**

The Internal Audit Department or Audit Team shall be responsible for the preliminary preparatory works in relation to the decision-making of the Audit Committee, and provide written information of the Company in relevant aspects, including but not limited to:

- (I) Relevant financial reports of the Company;
- (II) Semi-annual and annual internal control examination and supervision reports;
- (III) Work reports of internal and external auditors;
- (IV) External audit contract and relevant work reports;
- (V) The Company's information disclosure to the public;
- (VI) Audit report regarding the major connected transactions of the Company;
- (VII) Other relevant matters.

### **Article 13**

The meetings of Audit Committee shall discuss the reports or materials provided by the Internal Audit Department or Audit Team, pass resolution on relevant matters and submit written resolutions and relevant materials to the Board. Such matters shall include but not limited to:

- (I) The job assessment, appointment and replacement of external auditor;
- (II) Whether the Company's internal audit system is effectively implemented, and whether the Company's financial reports are complete and true;
- (III) Whether the annual internal control self-evaluation reports are complete and true;
- (IV) Whether the Company's disclosed financial reports are complete and true, and whether the Company's major connected transactions comply with relevant laws and regulations;

(V) Job assessment of the Company's Financial Department and Audit Department and responsible persons thereof;

(VI) Other relevant matters.

#### **Article 14**

The Audit Committee's working procedures for auditing of annual financial reports are as follows:

(I) The time for auditing of annual financial reports shall be determined through consultation by the Audit Committee and accounting firm in charge of the Company's annual auditing;

(II) The Audit Committee shall urge the accounting firm to submit the audit report within the agreed time;

(III) The Audit Committee shall review the financial and accounting reports prepared by the Company before the access of certified public accountant for annual audit. Written opinions shall be formed in principle;

(IV) After the access of the certified public accountant for annual audit, the Audit Committee shall enhance communication with the accountant for annual audit and review again the Company's financial and accounting reports after the said accountant provided preliminary audit opinions. Written opinions shall be formed in principle;

(V) After the financial and accounting auditing report is completed, the Audit Committee needs to vote on agreeing such report, and if a resolution is finalized, it shall be submitted to the Board for deliberation;

(VI) While submitting the financial reports to the Board, the Audit Committee shall provide the Board with the accounting firm's summary report about the Company's audit this year and its resolution about reengagement or replacement of the accounting firm next year.

## **Chapter 5 Rules of Procedure**

- Article 15** Meetings of the Audit Committee include regular meetings and extraordinary meetings. Regular meetings shall be held at least quarterly; and extraordinary meetings shall be convened upon proposal by members of the Audit Committee. The Audit Committee shall notify all members five days before convening of the meeting. In the event of emergency, a notice may be issued at any time regarding convening of an extraordinary meeting, and the chairman of the Audit Committee shall make explanation at the meeting. The meeting shall be presided over by the chairman. If the chairman is unable to attend the meeting, he/she may appoint another member (independent non-executive director) to preside over the meeting.
- Article 16** The meetings may be held on site and in the form of written circular. If a meeting is held on site, telephone, video, etc. may be used to facilitate the members in attending the meeting. Any member who attends the meeting via the abovementioned approaches shall be deemed as having attended the onsite meeting.
- Article 17** The Audit Committee meetings should be held only with the presence of more than two-thirds of members. Each member should be entitled to one vote. The resolutions made at the meeting should be approved by more than half of the members.
- Article 18** Voting at the meetings of the Audit Committee shall be conducted by a show of hands or by poll. Where any member cannot sign the resolutions made at a telephone meeting or video meeting in real time, the said member may orally give opinions first and responsively affix the written signature thereof, provided that there is no discrepancy between the opinions expressed by such member in completing the written resolutions and the opinions orally expressed by him/her at the meeting. Voting at an extraordinary meeting may also be conducted by means of communications.
- Article 19** Where any member of the Audit Committee has any interest in the matters to be deliberated by the Audit Committee, such member shall abstain from voting on the matters.
- Article 20** The senior management have the responsibility to provide enough timely information to the Audit Committee, so as to help it make informed decisions. The information provided shall be complete and reliable. The Audit Committee and its members may make further query, and independently contact the senior management when they deem necessary.

- Article 21** Members of the Internal Audit Department or Audit Team may attend the Audit Committee meetings. The directors, supervisors and senior management of the Company may be invited to attend the meetings if necessary.
- Article 22** If necessary, the Audit Committee may engage intermediaries to provide independent and professional advice for its decision-making, with the reasonable expenses to be borne by the Company.
- Article 23** The convening procedures and voting formula of the meetings of the Audit Committee and the proposals adopted at the meetings shall comply with relevant laws, regulations, SSE Listing Rules, Hong Kong Listing Rules, other provisions of the securities regulatory authorities in the places where the Company's shares are listed, the Articles of Association and these Rules.
- Article 24** Minutes shall be recorded for Audit Committee meetings and shall be signed by the attending members; the minutes shall be kept by the secretary to the Board for at least 10 years. The minutes shall offer sufficient detail to serve as a record of matters deliberated and decisions reached at the meeting, including any doubts or objections of the members. After conclusion of the meeting, the initial and finalized meeting minutes shall be sent to all the members in due time, with the initial ones to be commented on by the members and the final ones to be recorded. If any director gives a reasonable notice, the Company shall give the said director access to such minutes within reasonable time.
- Article 25** Proposals and voting results adopted at the Audit Committee meetings shall be reported to the Board of the Company in writing, unless such reporting is in conflict with the Audit Committee's general responsibilities or cannot be made according to laws, regulations or regulatory requirements (e.g. disclosure is restricted due to regulatory requirements).
- Article 26** The Audit Committee shall ensure that the Board as a whole and the directors individually have proper access to reports and other materials related to the Committee's work (having regard to the Hong Kong Listing Rules requirement for separate and independent access for the Board and the directors respectively to the senior management). It shall also ensure that such materials are of a form and quality sufficient to enable the Board to make informed decisions on matters placed before it, and that the directors will receive a prompt and full response to their enquiries.

**Article 27** Members present at the meetings shall keep confidential all matters discussed at the meetings. Unauthorized disclosure of the relevant information shall be prohibited.

## **Chapter 6 Supplementary Provisions**

**Article 28** The phrases “more than” and “at least” as referred to herein are inclusive while “majority” is exclusive.

**Article 29** These Rules shall be published on the Company’s website and the website of the stock exchanges of the places where the Company’s shares are listed.

**Article 30** These Rules and the amendment thereof shall be subject to consideration and approval of the Board of the Company before becoming effective.

**Article 31** Matters not covered herein shall be subject to relevant laws and regulations, SSE Listing Rules, Hong Kong Listing Rules, other provisions of the securities regulatory authorities in the places where the Company’s shares are listed, and relevant provisions of the Articles of Association. If relevant provisions of these Rules conflict with relevant laws and regulations, SSE Listing Rules, Hong Kong Listing Rules, other provisions of the securities regulatory authorities in the places where the Company’s shares are listed, and the Articles of Association promulgated or amended thereafter, relevant laws and regulations, SSE Listing Rules, Hong Kong Listing Rules, other provisions of the securities regulatory authorities in the places where the Company’s shares are listed, and the prevailing or amended Articles of Association shall apply.

**Article 32** The authority of formulation and interpretation of these Rules shall be vested in the Board of the Company.