

Digital China Holdings Limited

Terms of Reference for Audit Committee

1. Constitution

- 1.1 The Audit Committee (the “**Committee**”) of Digital China Holdings Limited (“**DC**”) was established in 2001 pursuant to a resolution passed by the board of directors (the “**Board**”) of DC at its meeting held on 14 May 2001.
- 1.2 These terms of reference were first approved and adopted on 1 June 2001 with the last revision approved and re-adopted pursuant to a resolution passed by the Board on 21 December 2018 and with effective on 21 December 2018.

2. Membership

- 2.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee (if any) in consultation with the Chairman of the Committee. The Committee must comprise non-executive directors only and shall be made up of at least three members (the “**Members**”), the majority of which must be independent non-executive director (“**INED**”) and at least one INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”).
- 2.2 Committee Chairman shall be appointed by the Board and must be an INED.
- 2.3 A former partner of DC’s existing auditing firm shall be prohibited from acting as a member of DC’s audit committee for a period of two years from the date of the person ceasing:
 - a) to be a partner of the firm; or
 - b) to have any financial interest in the firm,whichever is later.

3. Attendance at Meetings

- 3.1 Only members of the Committee have the rights to attend and vote at the Committee meetings. As necessary or desirable, the Committee Chairman may request executive directors, the members of management, the head of internal audit, representatives of the external auditors and other persons be present at meeting of the Audit Committee.

- 3.2 Appointments to the Committee shall be co-terminus with the directorship of the relevant members (whether by retirement, rotation or otherwise).

4. Secretary

- 4.1 The Company Secretary or their nominee shall act as the secretary of the Committee.

5. Quorum

- 5.1 The quorum necessary for the transaction of business shall be any two Members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

- 5.2 In the event of an equality of votes, the Committee Chairman shall be entitled to a second or casting vote.

6. Meetings

- 6.1 The Committee must meet at least twice a year with the external auditors. The external auditors may request a Meeting if they consider it necessary.

7. Notice of Meetings

- 7.1 Meetings of the Committee shall be summoned by the Secretary of the Committee.

- 7.2 Unless otherwise agreed, notice of each meeting together with an agenda of items to be discussed accompanying supporting papers, shall be sent to each member of the Committee and any other person required to attend at such meetings as appropriate, at least 5 working days prior to any such meeting being held.

- 7.3 Meetings can be held in person, by telephone or by video conference. Members of the Committee may participate in a meeting by means of communication equipment through which all persons participating in the meeting are able to hear each other.

- 7.4 A resolution in writing signed by all members of the Committee shall be as valid and effective as if the same had been passed at a meeting of the Committee duly convened and held.

8. Minutes of Meetings

- 8.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings. Minutes of the Committee shall be kept by the Secretary.
- 8.2 Draft and final minutes of Committee meetings shall be circulated to all members of the Committee for their comment and records within a reasonable period of time after the meeting.

9. Annual General Meeting

- 9.1 The Chairman of the Committee and/or other Committee members shall attend the DC's Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.

10. Duties

- 10.1 The Committee shall carry out the duties below (as may from time to time be varied or supplemented by the Board) for DC and its subsidiaries (the "Group") as a whole, as appropriate:-

Relationship with DC's auditors

- a) 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;
- 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 shall discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations;
- c) 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 shall report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of DC's financial information

- d) to monitor integrity of DC's financial statements and 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 shall focus particularly on:-
- (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- e) Regarding (d) above:-
- (i) Members of the Committee shall liaise with the Board and senior management and the Committee must meet, at least twice a year, with DC's auditors; and
 - (ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it shall give due consideration to any matters that have been raised by DC's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

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

- f) to review DC's financial controls, and to review DC's risk management and internal control systems;
- g) to review the Group's financial and accounting policies and practices;
- h) 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;
- i) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- j) 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 shall include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function;
- k) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within DC, and to review and monitor its effectiveness;
- l) to consider the 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;
- m) to report to the Board on the matters in the code provision set out in C3.3 of the Corporate Governance Code of the Listing Rules;
- n) to review arrangements that employees of DC can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- o) to act as the key representative body for overseeing DC's relations with the external auditor; and
- p) to consider other topics, as defined by the Board;

Corporate Governance Functions

- q) to develop and review DC's policies and practices on corporate governance and make recommendations to the Board;
- r) to review and monitor the training and continuous professional development of Directors and senior management;
- s) to review and monitor DC's policies and practices on compliance with legal and regulatory requirements;
- t) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

- u) to review DC's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report as set out under Appendix 14 of the Listing Rules.

11. Authority

- 11.1 The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from the management in order to perform its duties.
- 11.2 The Committee should be provided with sufficient resources to perform its duties. In connection with its duties the Committee is authorised by the Board, subject to prior discussion concerning cost, to obtain, at DC's expense, any outside legal or other independent professional advice.
- 11.3 The Committee shall report to the Board any suspected frauds or irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention.

12. Publication and Update of Terms of Reference

- 12.1 These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and regulatory requirements, including those under the Listing Rules, in Hong Kong.
- 12.2 These terms of reference shall be made available to the public on both DC's website and the Stock Exchange's website.