

XIAMEN YAN PALACE BIRD'S NEST INDUSTRY CO., LTD.
廈門燕之屋燕窩 業股份有限公司

(Stock Code: 1497)

AUDIT COMMITTEE UNDER THE BOARD OF DIRECTORS

TERMS OF REFERENCE

Chapter I General Provisions

Article 1 In order to improve the discussion and decision-making procedures of the Audit Committee (the "Audit Committee") of the Board of Directors of Xiamen Yan Palace Bird's Nest Industry Co., Ltd. (the "Company") and ensure the smooth progress of the work of the Audit Committee, these terms of reference are formulated in accordance with the Company Law of the People's Republic of China (the "Company Law"), the Articles of Association of Xiamen Yan Palace Bird's Nest Industry Co., Ltd. (the "Articles of Association"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") and other relevant provisions.

Article 2 The Audit Committee is a special committee established by the Board of Directors, which is mainly responsible for the supervision and verification of the Company's internal and external audit and internal control systems.

The members of the Audit Committee shall ensure sufficient time and energy to perform the duties of the Committee, be diligent and responsible, effectively supervise the external audit of the Company, guide the internal audit of the Company, promote the Company to establish effective internal control and provide true, accurate and complete financial reports.

Article 3 The Company shall provide necessary working conditions for the Audit Committee and appoint special ed personnel or institutions to undertake the daily work of the Audit Committee, such as work liaison, meeting organi tion, material preparation and file management. The management and relevant departments of the Company shall cooperate with the Audit Committee in performing its duties.

Chapter II Personnel Composition

Article 4 The Audit Committee shall consist of at least three members, all of whom shall be non-executive directors. The number of independent non-executive directors shall be more than half and at least one independent non-executive director shall have appropriate professional qualifications or appropriate accounting or related financial management expertise as required under the Hong Kong Listing Rules.

Article 5 Members of the Audit Committee shall be nominated by the chairman of the Board of Directors, more than half of the independent non-executive directors or one-third of all the directors, and shall be elected by the Board of Directors.

Article 6 The Board of Directors shall periodically evaluate the independence and performance of the members of the Audit Committee, and may, if necessary, replace those members who are unfit to continue serving. A person who is a former partner of an existing auditing firm shall not be a member of the Audit Committee unless two years have elapsed from (a) the date on which he/she ceases to be a partner of the auditing firm; or (b) the date on which he/she ceases to have any financial interest in the auditing firm (whichever date is later).

Article 7 The Audit Committee shall have a Chairman (the “Chairman”), who shall be an independent non-executive director. The Chairman shall be appointed by the Board of Directors, and is responsible for presiding over the work of the Committee.

Article 8 The term of office of the Audit Committee is the same as that of the Board of Directors, and members may be re-elected after their term expires. If any member ceases to hold the office of Director of the Company during the period, he/she shall automatically lose his/her membership and the number of members shall be supplemented by the Board of Directors in accordance with these terms of reference.

Chapter III The Secretary

Article 9 The secretary of the Audit Committee shall be any Company Secretary or joint Company Secretary.

Article 10 The Audit Committee may from time to time appoint any other person with suitable qualifications and experience as the Secretary of the Audit Committee.

Chapter IV Duties and Powers

Article 11 The duties of the Audit Committee shall include the following:

- (1) to supervise and evaluate the work of external auditors;
- (2) to guide internal audit;
- (3) to monitor the effectiveness of the financial reporting system, risk management and internal control systems;
- (4) to review and comment on the Company’s financial reports;
- (5) to perform the Company’s corporate governance procedures;
- (6) to coordinate the communication between the management, internal audit department and related departments and the external auditors; and
- (7) other powers conferred by laws, administrative regulations, departmental rules, regulatory documents, the listing rules of the stock exchange where the Company’s shares are listed (including the relevant powers and duties set out in the relevant code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules (as amended from time to time)), the Articles of Association, and the Board of Directors of the Company.

Article 12 The responsibility of the Audit Committee to supervise and evaluate the work of the external auditors shall include at least the following:

- (1) to be primarily responsible for advising the Board of Directors on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of appointment of the external auditors, and dealing with any question relating to the resignation or dismissal of the external auditors;
- (2) to review and monitor the independence and objectivity of the external auditors and the effectiveness of the audit procedures in accordance with applicable standards, and to discuss with the external auditors the nature and scope of the audit and the relevant reporting obligations before the commencement of the audit;
- (3) to formulate and implement policies on the provision of non-audit services by external auditors. For this purpose, “external auditors” includes any entity under the same control, ownership or management as the audit firm, or any entity which a third party with reasonable knowledge of all relevant information could reasonably conclude is part of the audit firm’s domestic or international business; and
- (4) to report to the Board of Directors on any matter requiring action or improvement, point out problems and make recommendations.

Article 13 The responsibility of the Audit Committee to supervise the Company’s financial reporting system, risk management and internal control system shall include at least the following aspects:

- (1) to review the financial control of the Company and (unless there is a separate risk committee under the Board of Directors or the Board of Directors itself explicitly deals with it) to review the risk management and internal control systems of the Company;
- (2) to discuss with the management the risk management and internal control system to ensure that the management has fulfilled its responsibilities to establish an effective system, including the adequacy of the Company’s resources, staff qualifications and experience in accounting and financial reporting functions, as well as the adequacy of staff training courses and the relevant budget;
- (3) to undertake, on its own initiative or at the direction of the Board of Directors, a study of significant findings on risk management and internal control matters and management’s response to those findings;
- (4) to ensure that the work of internal and external auditors is coordinated; and to ensure that the internal audit function has sufficient resources to operate within the Company and has an appropriate status; and review and monitor its effectiveness;
- (5) to review the financial and accounting policies and practices of the Company;
- (6) to examine the external auditors’ letter to management, any material questions raised by the external auditors to the management in relation to accounting records, financial accounts or risk management and control systems and the management’s response;

- (7) to ensure that the Board of Directors responds in a timely manner to matters raised in the external auditors' letter to the management;

(2) for the purposes of item (1) above,

- a. Members of the Audit Committee shall liaise with the Board of Directors and senior management of the Company. The Audit Committee shall meet with the external auditors of the Company at least twice a year; and
- b. The Audit Committee shall take into account any material or unusual matters reflected or required to be reflected in such reports and accounts and shall give due consideration to any matters raised by the Company's accounting and financial reporting staff or the compliance officer or external auditors.

Article 15 The Audit Committee's duties in carrying out the Company's corporate governance procedures shall include at least the following:

- (1) to formulate and review corporate governance policies and practices of the Company and make recommendations to the Board of Directors;
- (2) to review and monitor the training and continuing professional development of directors and senior management of the Company;
- (3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (4) to formulate, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Company; and
- (5) to review the Company's compliance with the Corporate Governance Code and its disclosure in the Corporate Governance Report.

Article 16 The Company's external auditors and the Audit Committee will hold meetings at least twice a year without the presence of any executive director (except those invited by the Audit Committee). The secretary of the Board of Directors of the Company may attend the meeting without voting rights.

Article 17 The Company's internal audit department shall report its work to the Audit Committee. All kinds of audit reports, rectification plans and rectification conditions of audit problems submitted by the internal audit department to the management shall be submitted to the Audit Committee at the same time.

Article 18 When the Company hires or replaces the external auditors, the Audit Committee shall form a review opinion and make a recommendation to the Board of Directors before the Board of Directors considers the relevant proposal.

Article 19 The Audit Committee shall be responsible to the Board of Directors, and its proposals shall be submitted to the Board of Directors for consideration and decision. The Audit Committee shall cooperate with the audit activities of the Board of Supervisors.

Article 20 The Audit Committee shall be authorized by the Board of Directors to inspect all accounts, books and records of the Company and shall have the power to require the management of the Company to provide data on any matter relating to the financial position of the Company, its subsidiaries or affiliates as may be necessary for the performance of its duties. The Audit Committee shall be provided with adequate resources to carry out its duties.

Article 21 The Chairman of the Audit Committee or, in his/her absence, another member of the Audit Committee (who must be an independent non-executive Director) shall attend the annual general meeting of the Company and respond to shareholders' questions concerning the activities of the Audit Committee and their responsibilities.

Chapter V Decision Procedure

Article 22 The audit department shall be responsible for the preparatory work for the decision-making of the Audit Committee and provide written materials of the relevant parties of the Company:

- (1) relevant financial reports of the Company;
- (2) work reports of internal and external audit institutions;
- (3) external audit contracts and related work reports;
- (4) the Company's disclosure of information to the outside world;
- (5) audit report of the Company's major connected transactions;
- (6) other relevant matters.

Article 23 The meeting of the Audit Committee shall comment on the report provided by the audit department, and submit relevant written resolution materials to the Board of Directors for discussion:

- (1) evaluation of the work of external auditors, appointment and replacement of external auditors;
- (2) whether the Company's internal audit system has been effectively implemented and whether the Company's financial reports are comprehensive and truthful;
- (3) whether the Company's financial reports and other information disclosed to the outside world are objective and true, and whether the Company's major connected transactions comply with relevant laws and regulations or the relevant provisions of the Hong Kong Listing Rules;
- (4) evaluation of the work of the Company's internal financial department and audit department, including its responsible person;
- (5) other relevant matters.

Chapter VI Rules of Procedure

Article 24 The meeting of the Audit Committee shall be divided into regular meeting and temporary meeting. The regular meeting shall be held at least twice a year and once every six months. When two or more members of the Audit Committee make a proposal, or when the Chairman considers it necessary, a temporary meeting may be convened. Notice shall be given to all members three days prior to the meeting, and the meeting shall be chaired by the Chairman, who may entrust another member (independent non-executive Director) to chair the meeting if he/she is unable to attend. The aforesaid notice period may be waived with the unanimous consent of all members. Notwithstanding the notice period, the presence of a member of the Audit Committee at a meeting will be deemed a waiver of the required notice period for that member. The external auditors of the Company may request a meeting if they consider it necessary.

Article 25 The meeting of the Audit Committee shall be held only with the attendance of more than two-thirds of the members; each member shall have one vote; resolutions made at the meeting must be adopted by more than half of all the members. If an effective review opinion cannot be formed due to the withdrawal of members of the Audit Committee, the relevant matters shall be directly reviewed by the Board of Directors.

Article 26 The meeting of the Audit Committee may be convened in person, by telephone or video conference. The meeting can be attended by telephone or similar communication devices through which all participants should be able to hear each other. A resolution of the Audit Committee, if made at a meeting, shall be passed by more than half of the members of the Audit Committee present at the meeting.

Article 27 A resolution passed and signed by all members of the Audit Committee shall be as valid as if it had been passed at a meeting duly convened by the Audit Committee.

Article 28 If any member of the Audit Committee has an interest in the matters discussed at the meeting, he/she shall withdraw. Members of the Audit Committee shall attend the meeting in person and express clear views on the matters under consideration. If a member is unable to attend a meeting in person for any reason, he or she may submit a power of attorney signed by the member and entrust other members to attend and express views on his or her behalf. The power of attorney shall specify the scope and term of authorisation. Each member shall be entrusted by a maximum of one member. If a member who is an independent non-executive director is unable to attend the meeting in person for any reason, he or she shall entrust another member who is an independent non-executive director to attend the meeting on his or her behalf.

Article 29 When necessary, the Audit Committee may invite representatives of external auditors, Company supervisors, internal auditors, financial personnel, legal advisers and other relevant personnel to attend the meetings of the Audit Committee and provide necessary information. However, only members of the Audit Committee are entitled to vote at the meeting of the Audit Committee.

Article 30 If necessary, the Audit Committee may hire an intermediary institution to provide professional advice for its decision-making at the expense of the Company.

Article 31 The procedures for convening the meeting of the Audit Committee, the voting method and the motions passed at the meeting must comply with the provisions of relevant laws, regulations, the Hong Kong Listing Rules, the Articles of Association and these terms of reference.

