

C Y FOUNDATION GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1182)

TERMS OF REFERENCE

OF

AUDIT COMMITTEE

(Adopted on 20 December 2006 and amended on 29 February 2008,
12 March 2012 and 31 March 2014 by the Board)

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1. DEFINITIONS

“Audit Committee”	means the audit committee of the Company
“Auditors”	means the external auditors of the Company which audits and prepares the periodic financial statements of the Company
“Board”	means the board of Directors
“Company”	means C Y Foundation Group Limited
“Director(s)”	means the director(s) of the Company
“ED(s)”	means the executive Director(s)
“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
“Group”	means the Company and its subsidiaries
“INED(s)”	means the independent non-executive Director(s)
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Member”	means a member of the Audit Committee
“NED(s)”	means the non-executive Director(s)
“Secretary”	the secretary of the Audit Committee
“Senior Management”	refers to the same persons referred to in the Company’s annual report and required to be disclosed under paragraph 12 of Appendix 16 to the Listing Rules (Disclosure of Financial Information). <i>(Note: It is stated in paragraph 12 of Appendix 16 that: It is the responsibility of the directors of the listed issuer to determine which individual or individuals constitute senior management. Senior management may include directors of subsidiaries; heads of divisions, departments or other operating units within the group as, in the opinion of the listed issuer’s directors, is appropriate.)</i>
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited

2. CONSTITUTION

- 2.1 The Audit Committee was established by the Board.
- 2.2 These terms of reference were proposed by the Audit Committee and adopted by the Board.

3. MEMBERSHIP

- 3.1 The Audit Committee shall comprise a minimum of 3 Members who shall be a Director appointed by the Board without fixed term of office. All Members should be NEDs or INEDs and a majority of them should be INEDs.
- 3.2 The chairman of the Audit Committee shall be an INED and shall be appointed by the Members.
- 3.3 A former partner of the Company's existing Auditors should be prohibited from acting as a Member for a period of 1 year 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 later.

4. PROCEEDINGS OF MEETINGS

- 4.1 Meetings shall be held at least twice for every financial year and on or before the finalization of the interim results and the annual results of the Company.
- 4.2 A quorum shall be 2 Members, one of whom should be INED.
- 4.3 The Chairman of the Audit Committee may request additional meeting if he or she considers that such is necessary.
- 4.4 The Chief Financial Officer and/or the relevant management person(s) of the finance/accounts department of the Company shall normally sit-in meetings of the Audit Committee to address any issues raised by the Members.
- 4.5 Save for otherwise required by any applicable law, regulation or rules, in lieu of meetings, decisions by the Audit Committee can be carried out by means of resolutions in writing circulated among and duly signed by all Members.
- 4.6 Each meeting of the Audit Committee shall be attended, physically or by electronic means.
- 4.7 In general, the company secretary of the Company should be the Secretary.

5. ROLES AND RESOURCES

- 5.1 The Audit Committee is authorized by the Board to perform any functions within its terms of reference. It is authorized to seek any information it requires from any employee or executive of the Company and all employees and executives are directed to co-operate with any request made by the Audit Committee.
- 5.2 The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary, provided that the arrangement is in line with the Company's guidelines for seeking independent professional advice (if any).

6. AUTHORITY, FUNCTIONS AND DUTIES

The Audit Committee shall have the following authority, functions and duties:

- 6.1 to be primarily responsible for making recommendations to the Board on the appointment, reappointment and terms of engagement of the Auditors, the audit fees, and any issues of resignation or dismissal of the Auditors;
- 6.2 to review and monitor the Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable laws, regulations and standards;
- 6.3 to discuss with the Auditors the nature and scope of the audit, and reporting obligations before the audit commences;
- 6.4 to develop and implement policy on the engagement of an External Auditor or alternatively, if deem appropriate another or an extra External Auditor to supply non-audit services; if the Audit Committee considers that it is not appropriate for the Auditors to perform such duty; the Audit Committee should report to the board, identifying and making recommendations on any matters where action or improvement is needed;
- 6.5 to monitor integrity of the Company'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 Audit Committee should focus particularly on:-
 - 6.5.1 any changes in accounting policies and practices;
 - 6.5.2 major judgmental areas;
 - 6.5.3 significant adjustments resulting from the audit;
 - 6.5.4 the going concern assumption and qualifications;
 - 6.5.5 compliance with accounting standards; and
 - 6.5.6 compliance with the Listing Rules and legal requirements in relation to financial reporting.
- 6.6 Regarding Section 6.5 above:-
 - 6.6.1 Members should liaise with the Board and Senior Management and the Audit Committee must meet, at least twice a year, with the Auditors; and
 - 6.6.2 the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it 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;
- 6.7 Oversight of the Company's financial reporting system and internal control procedures:
 - 6.7.1 to review the Company's financial controls, internal control and risk management systems;
 - 6.7.2 to 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;

- 6.7.3 to 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;
- 6.7.4 where an internal audit function exists, to 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;
- 6.7.5 to review the Group's financial and accounting policies and practices;
- 6.7.6 to review the Auditors' management letter, any material queries raised by the Auditors to management about accounting records, financial accounts or systems of control and management's response;
- 6.7.7 to ensure that the Board will provide a timely response to the issues raised in the Auditors' management letter;
- 6.7.8 to report to the Board on the matters in the code provision of the Corporate Governance Code and Corporate Governance Report in relation to financial reporting set out in the Listing Rules; and
- 6.7.9 to consider other topics, as defined by the Board.
- 6.8 to discuss problems and reservations arising from the interim and final audits, and any matters the Auditors may wish to discuss (in the absence of management where necessary);
- 6.9 to review the Auditors' management letter and the management's response;
- 6.10 to 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 raised by the Company's Chief Financial Officer, compliance officer (if any) or the Auditors;
- 6.11 to review the Company's statement on financial controls, internal control and risk management systems to ensure that the Company maintains sound and effective internal controls to safeguard shareholders' investment and the Company's assets;
- 6.12 to conduct a review, at least annually, of the effectiveness of the Company and its subsidiaries' internal control systems and report to the shareholders that the Company have done so in the Company's Corporate Governance Report. Such review should cover all material controls and risk management functions, including:
 - 6.12.1 identification of major risks:
 - (i) financial risks;
 - (ii) operational risks;
 - (iii) regulatory and compliance risks; and
 - (iv) information technology and intellectual property risks
 - 6.12.2 monitoring and controlling risks in an appropriate manner:
 - (i) retention (accept and budget the risks);

- (ii) avoidance (eliminate the risks or withdraw from risk exposures);
 - (iii) reduction (optimize the severity of a loss or reduce the likelihood of a loss from occurring or mitigate the damage after a loss occurs); and/or
 - (iv) Sharing (transferring or outsourcing high risk matters to professionals or experts or insuring risks)
- 6.13 to consider findings of major investigations of internal control;
- 6.14 to conduct an annual review of Board and should in particular, consider the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- 6.15 to review arrangements the Company's employees 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 action;
- 6.16 to be responsible for fraud investigation:
- 6.16.1 to receive report or complaint from employees of the Group any suspected or actual fraud through a dedicated email address (report@cyfoundation.com);
 - 6.16.2 to make investigation all reported incidents of suspected or actual fraud;
 - 6.16.3 to have free unrestricted access to all employees and records that are relevant to the designated scope and objectives of a fraud investigation;
 - 6.16.4 to conduct a full investigation of any incident of fraud and report the results of its investigation, along with any recommendations, directly to the Board; and
 - 6.16.5 to take up such other function for the detection and prevention of fraud.
- 6.17 to perform corporate governance functions:
- 6.17.1 develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
 - 6.17.2 review and monitor the training and continuous professional development of the Directors and Senior Management of the Group;
 - 6.17.3 review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
 - 6.17.4 review and monitor the Company's code of conduct and compliance manual (if any) applicable to employees and directors of the Group; and
 - 6.17.5 review the Company's compliance with the code and disclosure in the Corporate Governance Report.
- 6.18 to act as the key representative body for overseeing the Company's relations with the Auditors or External Auditors who supply audit and/or non-audit services; and
- 6.19 to consider and perform other functions, as defined by the Board.

7. REPORTING TO THE BOARD

- 7.1 The Audit Committee shall report back to the Board 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).

8. REPORTING PROCEDURES

The Secretary shall arrange the records of the meetings of the Audit Committee in the following manner:

- 8.1 full minutes of the Audit Committee should be taken and kept by the Company Secretary.
- 8.2 draft minutes should be sent to all Members for comments within a reasonable time (normally 10 business days after the meeting);
- 8.3 a reasonable time (normally a minimum of 3 business days) shall be allowed for each Member to comment on the draft minutes; and
- 8.4 within a reasonable time thereafter (normally the next 10 business days), the final version of the minutes shall be circulated to each attendee at the relevant meeting for signature
- 8.5 within a reasonable time thereafter (normally within 3 business days after obtaining all signatures) the signed minutes shall be sent to each Member for record, if desirable, to the relevant member(s) of the Board and/or the relevant management executives of the Group, for reference and/or follow up.