



**China Yongda Automobiles Services Holdings Limited**  
**(中國永達汽車服務控股有限公司)**

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

**(Stock Code: 03669)**

**Terms of Reference for the Audit and Compliance Committee**

*(with effective from 1 January 2019)*

**DEFINITIONS**

1. For the purposes of these terms of reference (the “**Terms**”):

**Audit and Compliance Committee** means the audit and compliance committee established by the resolution of the Board in accordance with clause 2 of these Terms.

**Board** means the board of directors of the Company.

**Chief Financial Officer** means the senior officer of the Company responsible for financial management as assigned by the Board from time to time.

**Company Secretary** means the company secretary of the Company.

**Directors** means the directors of the Board.

**Group** means the Company and its subsidiaries and associated companies at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries and associated companies, the present subsidiaries and associated companies of the Company or the businesses operated by its present subsidiaries and associated companies or (as the case may be) its predecessor.

**Listing Rules** means The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time).

**Senior Management** means the chairman, vice-chairman, general manager, executive deputy general manager, deputy general managers, company secretary; and any other officers or employees of the Company as determined by the Board from time to time.

**Shareholders** means the shareholders of the Company.

**Stock Exchange** means The Stock Exchange of Hong Kong Limited.

## **CONSTITUTION**

2. The Audit and Compliance Committee was established by resolutions of the Board on May 5, 2012.

## **MEMBERSHIP**

3. The members of the Audit and Compliance Committee shall be appointed by the Board from amongst the non-executive Directors and shall consist of not less than three members, a majority of whom should be independent non-executive Directors and at least one of whom should be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules. The quorum of an Audit and Compliance Committee meeting shall be any two members of the Audit and Compliance Committee one of whom must be independent non-executive Director.
4. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Audit and Compliance 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 the later.
5. The chairman of the Audit and Compliance Committee shall be appointed by the Board and should be an independent non-executive Director.

## **ATTENDANCE AT MEETINGS**

6. The Chief Financial Officer, the head of internal audit of the Company and a representative of the external auditors shall normally attend meetings. However, at least once a year the Audit and Compliance Committee shall meet with the external and internal auditors without the executive Directors present.

## **FREQUENCY AND PROCEDURE OF MEETINGS**

7. Unless otherwise stated herein, the meetings are governed by the provisions contained in the Company's Articles of Association for regulating the meeting and proceedings of Directors.
8. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.
9. The Company Secretary shall be the secretary of the Audit and Compliance Committee.
10. An agenda and accompanying board papers should be sent in full to all Directors in a timely manner and at least three days before the proposed date of a meeting of the Audit and Compliance Committee (or other agreed period).
11. Senior Management is obliged to supply the Audit and Compliance Committee with adequate information in a timely manner, in order to enable it to make informed decisions. The information supplied must be complete and reliable. Where a Director requires more information than information provided voluntarily by the Senior Management, the relevant Director should make additional necessary enquiries. The Board and each Director shall have separate and independent access to the Senior Management.

## **ANNUAL GENERAL MEETING**

12. The chairman of the Audit and Compliance Committee shall attend the Company's annual general meeting and be prepared to respond to any Shareholders' question on the Audit and Compliance Committee's activities.
13. If the Chairman of the Committee is unable to attend an Annual General Meeting of the Company, he shall arrange for another member of the Audit and Compliance Committee, or failing this, his duly appointed delegate, to attend in his place. Such person shall be prepared to respond to any Shareholder's questions on the Audit and Compliance Committee's activities.

## **AUTHORITY**

14. The Audit and Compliance Committee is authorized by the Board to investigate any activity within these Terms. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit and Compliance Committee.
15. The Audit and Compliance Committee should seek independent professional advice to perform its responsibilities, at the Company's expenses, if it considers necessary. The Audit and Compliance Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any external consultant who advises the Audit and Compliance Committee.

## **DUTIES**

16. The duties of the Audit and Compliance Committee shall include:

### **Relationship with the Company's auditors**

- (a) making recommendation 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 to consider any questions of resignation or dismissal of that auditor;
- (b) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (c) developing and implementing policy on the engagement of an external auditor to supply non-audit services and report to the Board, identifying and making recommendations on any matters in respect of which it considers that action or improvement is needed;
- (d) discussing with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (e) 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);

## **Review of financial information of the Company**

- (a) monitoring integrity of financial statements, 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 and Compliance Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with any requirements from the Stock Exchange and other legal requirements in relation to financial reporting;
- (b) In regard to (a) above:–
  - (i) liaising with the Board, Senior Management and the person appointed as the Company's qualified accountant;
  - (ii) meeting, at least twice a year, with the Company's auditors; and
  - (iii) considering any significant or unusual items that are, or may need to be, reflected in such financial statements, reports and accounts and giving due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;

## **Oversight of the Company's risk management and internal control systems**

- (a) overseeing and monitoring the risk management and internal control systems of the Company on an ongoing basis and review with the Company's external auditors and Senior Management periodically, and ensuring that a review of the scope, adequacy and effectiveness of the Group's 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 and Compliance Committee should, in particular, consider:

- (i) 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;
  - (ii) the scope and quality of 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;
  - (iii) the extent and frequency of communication of monitoring results to the Audit and Compliance Committee (or to the board) which enables it to assess control of the Company and the effectiveness of risk management;
  - (iv) 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
  - (v) the effectiveness of the Company's processes for financial reporting and Listing Rule compliance.
- (b) discussing the risk management and internal control systems with Senior Management to ensure that Senior Management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Company's accounting, internal audit and financial reporting functions.
- (c) considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and Senior Management's response to these findings.
- (d) reviewing the Company's internal audit function\* to ensure co-ordination within the Group and between the Company's 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.

\* *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.*

- (e) 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.
- (f) 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 Listing Rules are fulfilled.

### **Oversight of the Company’s financial reporting system**

- (a) reviewing the Group’s financial and accounting policies and practices;
- (b) reviewing the external auditor’s management letter, any material queries raised by the auditor to the Senior Management about accounting records, financial accounts or systems of control and the Senior Management’s response;
- (c) ensuring that the Board will provide a timely response to the issues raised in the external auditor’s management letter;
- (d) reporting to the Board on the matters set out in these Terms;
- (e) reviewing arrangements employees of the Company can use, in confidence to raise concerns about possible improprieties in financial reporting, risk management and internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (f) acting as the key representative body for overseeing the Company’s relation with the external auditor;

- (g) establishing a whistle-blowing policy and system for employees of the Company and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit and Compliance Committee about possible improprieties in any matter related to the Company;
- (h) considering any other topics, as defined by the Board;

### **Oversight of the Company's corporate governance functions**

- (a) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- (b) reviewing and monitoring the training and continuous professional development of the Directors and Senior Management;
- (c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors; and
- (e) reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

### **FAILURE TO REACH AN AGREEMENT REGARDING EXTERNAL AUDITORS**

17. Where the Board has taken a different view from the Audit and Compliance Committee regarding the selection, appointment, resignation or dismissal of the external auditors, the Audit and Compliance 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 Listing Rules.

### **REPORTING PROCEDURES**

18. Full minutes of the Audit and Compliance Committee's meetings should be kept by a duly appointed secretary of the meeting (who should normally be the Company Secretary or the representative appointed by the Company Secretary). The minutes shall be available for inspection at any reasonable time on reasonable notice by any Director.

Minutes of meetings of the Audit and Compliance Committee should record in sufficient detail the matters considered by the Audit and Compliance Committee and decisions reached, including any concerns raised by the Directors, members or dissenting views

expressed. Draft and final versions of minutes of such meetings should be sent to all members of the Audit and Compliance Committee for their comment and records respectively, in both cases within a reasonable time after such meetings.

19. Without prejudice to the generality of the duties of the Audit and Compliance Committee set out above, the Audit and Compliance Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless there are legal or regulatory restrictions on it to do so.

#### **PROVISION OF TERMS OF REFERENCE**

20. The Audit and Compliance Committee should provide the terms of reference upon request and upload it to the Hong Kong Stock Exchange's website and the Company's website to explain the duties of the Audit and Compliance Committee and the authority the Board granted to it.