

# **Minsheng Education Group Company Limited**

**(“the Company” or “Company”)**

## **Rules of Procedure of the Audit Committee**

Came into Effect as of March 2, 2017

(Passed in the Board Meeting on March 2, 2017)

### **Organization**

1. According to the resolution passed by the Company’s Board of Directors (the “**Board**”) on March 2, 2017, the Audit Committee (the “**Committee**”) is established under the Board.
2. The Committee is mainly responsible for review and monitoring of the Company’s financial reporting system, set up and implementation of the risk management and internal control system, internal audit, implementation of the internal audit system, and making comments on the appointment of external auditors and monitoring its relationship with the Company, reviewing the Company’s financial information, and making judgment on the authenticity, completeness and accuracy of financial information.
3. The Committee is accountable to the Board and reports to the latter.

### **Membership**

4. The Committee shall consist of at least three members who shall be non-executive directors of the Company. One of the members shall be an independent non-executive director with suitable professional qualifications and experience or expertise in accounting or relevant financial management. Most of the members shall be independent non-executive directors. Chairman of the Committee shall be an independent non-executive director.
5. According to the Listing Rules and applicable provisions on independence of auditors, former partner of the external auditor engaged by the Company from time to time shall not serve as a Committee member within one year from the following date (whichever is later): (a) the date when he terminated the partnership with the external auditor; or (b) the date when he is no longer entitled to financial benefits of the external auditor.
6. Dismissal of an existing Committee member or appointment of an additional member to the Committee shall only be made through a resolution passed by the Board.

7. Composition of the Committee shall comply with the requirements of the Listing Rules, as amended from time to time.

### **Present at the meeting**

8. Chief Financial Officer (CFO) and other person-in-charge of Finance of the Company shall attend the meeting in general. As the Committee requested, representatives of the external auditor may be invited. The Committee shall hold at least one meeting in a year with the external auditor with no Executive Directors of the Board present at the meeting.
9. A quorum of the meeting of the Committee consists of two Committee members. Other members of the Board are entitled to attend the meetings of the Committee. Resolutions of the Committee shall be passed by a majority vote of all Committee members present at the meeting. If the number of votes in favor of and the number of votes against a proposal are equal, Chairman of the Committee shall have one extra deciding vote.

### **Frequency of meetings**

10. Meetings shall be held not less than four times a year. If Chairman of the Committee or the external auditor deems it necessary, a meeting may be convened at any time. Meetings include on-site meetings and communications conference (via telephone or video).

### **Meeting notice**

11. Unless otherwise agreed by the Committee, a notice of a Committee meeting shall be sent at least 2 working days in advance. Notices can be given in written or verbal form. If a verbal notice is given, its content shall be confirmed in writing.
12. Notice of the meeting shall indicate the date, time and venue of the meeting, accompanied by the agenda of the meeting.

### **Power**

13. The Committee is authorized by the Board to carry out investigation in accordance with its terms of reference. The Committee has the right to ask any employee of the Company for any required data, and all employees shall cooperate with their requests. Committee members are obliged to keep confidential of related information from the Company.

14. The Committee is authorized by the Board to seek external legal or other independent professional advice when it deems necessary, and to invite external personnel with relevant experience and professional expertise to attend meetings.
15. Whenever the Board does not agree with the Committee on the selection, appointment, resignation or dismissal of the external auditor, the Committee shall include its statement explaining their proposals as well as the reasons of the Board's disagreement in the Corporate Governance report.
16. If the Committee notices any suspected fraud and irregularities, internal control failure or any suspected acts that violate laws and regulations, and recognizes the gravity of the acts, it shall report to the Board accordingly.
17. The Committee shall be provided with sufficient resources to perform its duties.

### **Duties and Responsibilities**

18. The terms of reference of the Committee shall include at least the following:

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

- (a) mainly responsible for making recommendations to the Board on the external auditor's appointment, reappointment and dismissal, approval of the external auditor's remuneration and terms of employment, as well as any other issues related to resignation or dismissal of such auditor;
- (b) review and monitor the independence and objectivity of the external auditor and the effectiveness of the audit procedures in accordance with the applicable standards. Before commencement of the audit, the Committee shall discuss with the auditor on the nature and scope of audit and related reporting responsibilities I advance;
- (c) formulate and implement policies on non-audit services provided by the external auditor. In terms of this provision, the "appointed external auditor" includes any institution under common control, ownership or management with the entity responsible for audit, or a third party after reasonably informed of all relevant information, shall judge that such institution belongs to part of the local or international businesses of the entity responsible for audit under reasonable circumstances. The Committee shall report and make recommendations to the Board in respect of any issues requiring actions or improvement;

*Reviewing the Company's financial information*

- (d) monitor the integrity of the Company's financial statements, the Company's annual report and accounts, semi-annual reports and quarterly reports (if intended to issue), and review major comments on financial reporting contained in the statements and reports. The Committee shall particularly review the following matters before submitting relevant statements and reports to the Board:
  - (i) any changes in accounting policies and practices;
  - (ii) areas where significant judgment is needed;
  - (iii) major adjustments resulted from audit;
  - (iv) assumptions on the Company's continuing operation and any qualified opinions;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules on financial reporting and legal requirements;
- (e) for the above item (d):
  - (i) members of the Committee shall liaison with the Board and the senior management. The Committee shall meet at least twice a year with the Company's auditor; and
  - (ii) the Committee shall consider any significant or irregular items reflected or needed to be reflected in the report and accounts, and shall properly consider any items raised by the Company's accounting and financial reporting officer, the inspector or auditor;

*Monitoring the Company's financial reporting system, risk management and internal control systems*

- (f) review the Company's financial control, internal control and risk management systems;
- (g) discuss with the management on risk management and internal control system to ensure that the management has performed its duty in establishing an effective system. It shall discuss on the adequacy of the Company's resources, employees with sufficient qualifications and experience, as well as training courses received by the staff and its related budget for accounting and financial reporting functions.
- (h) within its own initiative or delegated by the Board, study on major investigation results in terms of related to risk management and internal control and the management response to the findings of investigation.

- (i) if the Company has an internal audit function, it needs to ensure that the internal and external auditor's work is coordinated; and the Company shall ensure that the internal audit function is adequately resourced and has appropriate standing; and to review and monitor their effectiveness;
- (j) review the Group's financial and accounting policies and practices;
- (k) check on the Explanatory Letter of Audit submitted by external auditor to the management, any significant questions raised by the auditor on accounting records, financial accounts or the control system and management's responses;
- (l) ensure that the Board responds to the issues raised in the Explanatory Letter of Audit submitted by the external auditor to the management in a timely manner;
- (m) review the following arrangements set by the Company: employees of the Company could raise concerns on the Company's financial reporting, internal controls or other irregularities that may occur in private. The Committee shall ensure that appropriate arrangements are made on allowing the Company in investigating fairly and independently and taking appropriate actions on such issues;
- (n) act as a principal representative between the external auditor and the Company and monitor the relationship between them;
- (o) report to the Board on matters set forth above;
- (p) be present at the Company's annual general meeting and shall answer questions at the meeting. (Note: Chairman shall attend the annual general meeting of the Company; if the Chairman is unable to attend, the other member of the Board (or, if the member of the Committee is unable to attend, the duly appointed representative by the Chairman) shall be present). Chairman of an independent Committee (if any) under the Board shall respond to questions in any shareholders' meeting approving the following transactions: connected transaction or any other transaction that requires approval from the independent shareholders. The management of the Company shall ensure that the external auditor attend the annual general meeting, answer questions on the audit work, the preparation of auditor's report and its contents, accounting policies, and issues such as the independence of auditor; and
- (q) consider other issues as defined by the Board.

## **Reporting procedures**

19. The Secretary of the Committee shall send the draft and the final version of meeting minutes and reports to all Committee members for circulation within a reasonable time after the meeting, with the draft for members to comment and the final version for the record. The Secretary of the Committee shall keep all approved meeting minutes and reports either in hard copy or electronic copy as part of the Company's records.
20. The Chairman shall report regularly to the Board on the decisions or recommendations, unless restricted by laws or regulations that the Committee cannot make such report (for example, due to regulatory restrictions on disclosure).
21. Under the premise of complying with the Articles of Association of the Company and the Listing Rules, the Board may at any time amend, supplement and revoke these terms of reference and procedures and any resolutions passed by the Committee, provided that the relevant amendment, supplement and revoking shall not affect the validity of any resolutions passed or measures taken by the Committee before such relevant action is taken place.

## **Effectiveness**

22. These rules of procedure shall come into effect after being considered and passed by the Board.
23. The Board is responsible for the interpretation of these rules of procedure.

## **Language**

24. In case there is any discrepancy between the English version and Chinese version of these terms of reference and procedures, the English version shall prevail.

Board of Directors of Minsheng Education Group Company Limited

March 2, 2017