Befar Group Co., Ltd
Terms of Reference for the Audit Committee of the Board of Directors

CHAPTER 1 GENERAL PROVISIONS

Article 1 In order to strengthen the decision-making of the Board, conduct advance audit and professional audit, ensure the effective supervision of the Board on the management and improve the corporate governance structure, the Company hereby establishes the Audit Committee of the Board and formulates these Terms of Reference in accordance with the Company Law of the People's Republic of China, the Code of Corporate Governance for Listed Companies, the Shanghai Stock Exchange's Self-Regulatory Guidelines for Listed Companies No. 1 – Standardized Operations, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the Hong Kong Listing Rules), the Articles of Association and other relevant provisions.

Article 2 The Audit Committee of the Board of Directors is a specialized working body established under the Board of Directors, primarily responsible for the Company's financial information and its disclosure, supervising and evaluating the internal and external audit work and internal control. It is accountable to the Board of Directors and reports its work to the Board of Directors.

CHAPTER 2 COMPOSITION

Article 3 The Audit Committee shall consist of three to five directors, all of whom shall be directors who do not hold senior management positions in the Company, with all members being non-executive directors and independent directors constituting a majority. All members of the Audit Committee shall possess the professional knowledge and business experience necessary to competently perform the duties of the Audit Committee, and at least one independent director shall have appropriate professional qualifications or accounting or related financial management expertise.

Article 4 Members of the Audit Committee shall be nominated by the chairman of the Board and elected by more than half of all directors.

Article 5 The Audit Committee shall have one convener, who shall be an independent director and shall be responsible for presiding over the work of the Committee; the convener shall be elected from among the members and approved by the Board of Directors, and the convener of the Audit Committee shall be an accounting professional.

Article 6 The term of office of the Audit Committee shall be the same as that of the Board of Directors. Upon expiry of their term, members may be re-elected. If any member ceases to serve as a director of the Company during the term, he/she shall automatically lose membership of the Committee, and the Committee shall fill the vacancy in accordance with Articles 3 to 5 above.

Article 7 The Board of Directors of the Company shall conduct periodic assessments of the independence and performance of the Audit Committee members, and may replace members who are no longer suitable to continue serving when necessary.

Article 8 The Company shall organise relevant training for the Audit Committee members to enable them to timely acquire the professional knowledge in laws, accounting and regulatory standards for listed companies necessary for performing their duties.

Article 9 The secretary to the Board of Directors of the Company shall be the administrator of the Audit Committee, responsible for managing day-to-day work liaison, meeting organisation and other relevant matters, and the Company's internal audit department shall be the specific executing body.

CHAPTER 3 RESPONSIBILITIES AND AUTHORITIES

Article 10 The Audit Committee is responsible for reviewing the Company's financial information and its disclosure, supervising and evaluating the internal and external audit work and internal control. The following matters shall be submitted to the Board of Directors for consideration after being approved by more than half of all members of the Audit Committee:

(I) disclosure of financial information in financial accounting reports and periodic reports, and internal control evaluation reports;

(II) appointment or dismissal of the accounting firm undertaking the Company's audit business;

(III) making recommendations to the Board of Directors on the appointment, reappointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and handling any issues relating to the resignation or dismissal of such auditor;

(IV) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; the Audit Committee shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(V) formulating and implementing policies on the provision of non-audit services by the external auditor. For this purpose, "external auditor" includes any entity under common control, ownership or management with the auditing firm, or any entity that a third party with reasonable knowledge of all relevant information would reasonably conclude to be part of the auditing firm's national or international operations. The Audit Committee shall report to the Board of Directors and make recommendations on any matters requiring action or improvement;

(VI) monitoring the integrity of the Company's financial statements and annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and reviewing significant opinions contained in such statements and reports relating to financial reporting. Before submitting such statements and reports to the Board of Directors, the Committee shall particularly review the following matters:

(1) any changes in accounting policies and practices;

(2) areas involving significant judgment;

(3) significant adjustments due to auditing;

(4) assumption of continuing operation of the Company and any qualified opinion; and

(5) compliance with accounting standards.

(VII) with respect to item (VI) above:

(1) committee members shall liaise with the Board of Directors and senior management. The committee must hold meetings with the audit firm of the Company at least twice a year; and

(2) the Committee shall consider any significant or unusual matters reflected or should 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, compliance officer or auditor;

(VIII) reviewing the Company's financial controls, and, unless there is a separate Board risk committee or the Board itself expressly addresses such matters, reviewing the Company's risk management and internal control systems;

(IX) discussing the risk management and internal control systems with management to ensure that management has fulfilled its responsibility to establish effective systems. Such discussion shall include the adequacy of resources, staff qualifications and experience of the Company's accounting and financial reporting functions, as well as the adequacy of staff training programmes and related budgets;

(X) proactively or upon delegation by the Board of Directors, studying significant findings on risk management and internal control matters and management's responses to such findings;

(XI) where the Company has an internal audit function, ensuring coordination between the work of the internal and external auditors, ensuring that the internal audit function has sufficient resources and appropriate standing within the Company, and reviewing and monitoring its effectiveness;

(XII) reviewing the Group's financial and accounting policies and practices;

(XIII) reviewing the external auditor's management letter, any significant queries raised by the external auditor to management regarding accounting records, financial accounts or control systems, and management's responses;

(XIV) ensuring that the Board of Directors responds in a timely manner to matters raised in the external auditor's management letter;

(XV) reporting to the Board of Directors on matters relating to the Corporate Governance Code provisions under the Hong Kong Listing Rules;

(XVI) studying other subjects defined by the Board of Directors;

(XVII) appointing or dismissing the person in charge of finance of the Company;

(XVIII) making changes to accounting policies and accounting estimates or correcting significant accounting errors for reasons other than changes in accounting standards;

(XIX) reviewing the Company's arrangements for employees to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for the Company to conduct fair and independent investigations into such matters and to take appropriate action;

(XX) acting as the primary representative between the Company and the external auditor, responsible for overseeing the relationship between the two; and

(XXI) other matters stipulated by laws and regulations, relevant provisions of the stock exchange, and the Articles of Association.

The Audit Committee shall report to the Board of Directors and make recommendations on any measures or improvements it considers necessary. If the Audit Committee deems it necessary, it may engage intermediary agencies to provide professional opinions, with the relevant costs borne by the Company.

The Company's internal audit department shall report to the Audit Committee on its work. All types of audit reports submitted by the internal audit department to management, as well as rectification plans and rectification status for audit issues, shall be simultaneously submitted to the Audit Committee.

Article 11 Where the Company engages or replaces an external auditor, the Audit Committee shall form a deliberative opinion and make recommendations to the Board of Directors before the Board of Directors may consider the relevant proposal.

Article 12 The Audit Committee is accountable to the Board of Directors, and the proposals of the Committee shall be submitted to the Board of Directors for deliberation and decision.

CHAPTER 4 DECISION-MAKING PROCEDURES

Article 13 The day-to-day management and executing bodies of the audit shall be responsible for making adequate preparations prior to the decision-making of the Audit Committee and providing the written materials of the Company in relevant aspects:

(I) the Company's relevant financial reports;

(II) work reports of the internal and external auditors;

(III) external audit contracts and related work reports;

(IV) information disclosed by the Company to the public; and

(V) other relevant matters.

Article 14 The Audit Committee shall hold meetings to deliberate on the reports provided by the secretary to the Board of Directors or the internal audit department, and submit the relevant written resolution materials to the Board of Directors for discussion, including but not limited to:

(I) evaluation of the work of the external auditor, and the engagement and replacement of the external auditor;

(II) whether the Company's internal audit system has been effectively implemented, and whether the Company's financial reports are comprehensive and true;

(III) whether the financial reports and other information disclosed by the Company to the public are objective and true;

(IV) evaluation of the work of the Company's finance department, internal audit department and their responsible personnel; and

(V) other relevant matters.

CHAPTER 5 PROCEEDINGS

Article 15 The Audit Committee shall hold at least one meeting each quarter. An interim meeting may be convened upon the proposal of two or more members, or when the convener deems it necessary. Notice of a meeting of the Audit Committee shall be given to all members three days prior to the meeting. In case of emergency, a meeting may be convened without being subject to the notice time limit prescribed in the preceding sentences, provided that more than two-thirds of the members are present. The meeting shall be chaired by the convener. If the convener is unable to attend or refuses to perform his/her duties, more than half of the members of the Audit Committee may jointly elect an independent director member to chair the meeting.

Article 16 A meeting of the Audit Committee may be held only if at least two-thirds of the members are present. Meetings shall be held onsite in principle; provided that all attending members are able to fully communicate and express their opinions, the meeting may, when necessary, be held by way of video, telephone or other means in accordance with procedures. Each member shall have one vote; the deliberative opinions proposed by the Audit Committee to the Board of Directors must be passed by more than half of all members. If the Audit Committee is unable to form a valid deliberative opinion due to recusal of its members, the relevant matter shall be directly deliberated by the Board of Directors.

Article 17 Members of the Audit Committee shall attend meetings in person and express clear opinions on the matters under deliberation. If a member is unable to attend a meeting in person for any reason, he/she may submit a written power of attorney signed by himself/herself, authorising another member to attend and express opinions on his/her behalf. The power of attorney shall clearly specify the scope and duration of the authorisation. Each member may accept authorisation from no more than one member. If an independent director member is unable to attend a meeting in person for any reason, he/she shall authorise another independent director member to attend on his/her behalf.

Article 18 The voting method at Audit Committee meetings shall be by show of hands, by poll or by communication.

Article 19 If the Audit Committee deems it necessary, it may invite representatives of the external auditor, internal auditors, financial personnel, legal counsel and other relevant persons to attend the Committee meetings and provide necessary information.

Article 20 If necessary, the Audit Committee may engage an intermediary agency to provide professional opinions for its decision-making, with the costs to be borne by the Company.

Article 21 The convening procedures, voting methods and proposals passed at Audit Committee meetings must comply with the provisions of relevant laws, regulations, the Articles of Association and these Terms of Reference.

Article 22 Minutes shall be taken at Audit Committee meetings, and the members and other persons attending the meeting shall sign the meeting minutes; the meeting minutes shall be properly kept by the working group of the Audit Committee, and the archives of the Audit Committee shall be preserved for a period of 10 years.

Article 23 The proposals passed and voting results at Audit Committee meetings shall be reported to the Board of Directors of the Company in writing.

Article 24 All members attending the meeting shall have an obligation of confidentiality regarding the matters discussed at the meeting and shall not disclose relevant information without authorisation.

Article 25 If any member of the Audit Committee has an interest in the matters discussed at the meeting, he/she shall recuse himself/herself.

CHAPTER 6 INFORMATION DISCLOSURE

Article 26 The Company shall, at the same time as disclosing its annual report, disclose on the website of the Shanghai Stock Exchange the annual performance of the Audit Committee, mainly including the performance of its duties and the convening of Audit Committee meetings.

Article 27 If any major issues discovered during the Audit Committee's performance of its duties trigger the information disclosure standards under the Shanghai Stock Exchange Stock Listing Rules, the Company shall promptly disclose such matters and the rectification status thereof.

Article 28 If the Audit Committee submits deliberative opinions to the Board of Directors on matters within the scope of its duties and the Board of Directors does not adopt such opinions, the Company shall disclose such matter and fully explain the reasons.

Article 29 The Company shall, in accordance with the provisions of laws, administrative regulations, departmental rules, the Shanghai Stock Exchange Stock Listing Rules and relevant regulatory documents, disclose the special opinions issued by the Audit Committee on major matters of the Company.

CHAPTER 7 MISCELLANEOUS

Article 30 These Terms of Reference shall, upon approval by a resolution of the Board, take effect from the date on which the Company's H shares offered in the initial public offering are listed on The Stock Exchange of Hong Kong Limited.

Article 31 For any matters not covered by these Terms of Reference, they shall be executed in accordance with the relevant PRC laws and regulations and the Articles of Association. In the event that these Terms of Reference contravene any future PRC laws and regulations to be promulgated, and the Articles of Association amended through valid procedure, then the relevant PRC laws and regulations, and the Articles of Association shall prevail.

Article 32 The right to interpret these Terms of Reference shall reside in the Board of the Company.

Article 33 For the purposes of these Terms of Reference, the term "independent Director" refers to the same concept and shall have the same meaning as "independent non-executive Director" under the Hong Kong Listing Rules.