

NetDragon Websoft Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(hereinafter the “Company”)

(Approved by the Board on 22 May 2008 as amended on 26 March 2012 and 31 August 2016)

Audit Committee – Terms of Reference

1. Membership

1.1 The Audit Committee shall be appointed by the Board and must consist of not less than three members (the “Members”).

1.2 The Audit Committee shall comprise non-executive directors only. The majority of the Audit Committee Members must be independent non-executive directors (“INEDs”) of the Company, and at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

1.3 The chairman of the Audit Committee shall be appointed by the Board and must be an INED.

1.4 A former partner of the Company’s existing auditing firm should be prohibited from acting as a Member of its Audit Committee for a period of 1 year from the date of his ceasing (a) to be a partner of the auditing firm; or (b) to have any financial interest in the auditing firm, whichever is later.

2. Secretary

2.1 The company secretary of the Company, or any person delegated by him/her, shall act as the secretary of the Audit Committee.

2.2 The Audit Committee may from time to time, appoint any other person with appropriate qualification and experience to act as the secretary of the Audit Committee.

3. Meetings

3.1 The Audit Committee shall meet at least twice a year. The external auditors of the Company can call for a meeting if necessary.

3.2 Notice of at least 14 days should be given for any meeting, unless such notification is waived by all Members of the Audit Committee. Notwithstanding the notification period, the attendance of the Member of the committee at the meeting would be deemed to be treated as the waiver of the required notification requirement. If the follow up meeting takes place within 14 days after the meeting, then no notification is required for such follow up meeting.

3.3 The quorum necessary for the transaction of business of the Audit Committee shall be two Members of the Audit Committee, one of whom must be an INED.

3.4 Meetings can be attended in person or via electronic means including telephonic or videoconferencing. The Members of the Audit Committee can attend the meeting via telephonic or any similar communication device (all persons attending such meeting should be able to hear from such Member via such communication device).

3.5 Resolutions of the Audit Committee shall be passed by a majority of votes.

3.6 A resolution in writing signed by all the Members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.

3.7 Minutes shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes of the meetings shall be circulated to all Members for their comment and records, within a reasonable period of time after the meeting. Such minutes shall be open for directors' inspection.

4. Meeting Attendance

4.1 Upon the invitation from the Audit Committee, the following persons can attend the meeting: i) Head of internal audit department or (if absent) the representative from internal audit department; ii) financial controller of the Company and its subsidiaries (or equivalent); iii) the other Board Members; and iv) other persons.

4.2 Only Members of Audit Committee are entitled to vote at the meetings.

5. Annual General Meeting

5.1 The Chairman of the Audit Committee or in his/her absence, another Member (who must be an INED) of the Audit Committee, shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Audit Committee's activities and their responsibilities.

6. Duties, Power and Discretion

The Audit Committee is responsible for reviewing and monitoring the financial reporting, risk management and internal control principles of the Company, and assist the Board to fulfill its responsibility over the audit. The Audit Committee shall have the following powers and duties:

Relationship with the Company's external auditors

6.1 to be primarily responsible for making recommendations 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 any question of its resignation or dismissal;

6.2 to review and monitor the external auditor's independence and objectivity;

6.3 to review and monitor the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

6.4 to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "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;

6.5 the Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

6.6 to act as the key representative body for overseeing the Company's relations with the external auditor;

Review of the Company's financial information

6.7 to monitor integrity of the Company's financial statements and annual report and accounts, interim report and quarterly reports and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the committee should focus particularly on:

- (a) any changes in accounting policies and practices;
- (b) major judgmental areas;
- (c) significant adjustments resulting from audit;
- (d) the going concern assumptions and any qualifications;
- (e) compliance with accounting standards; and
- (f) compliance with the Listing Rules and legal requirements in relation to financial reporting.

6.8 regarding to clause 6.7 above:

- (a) Members of the Audit Committee shall liaise with the Board, senior management and the party which has been appointed as the qualified accountant of the Company;
- (b) the Audit Committee shall meet at least twice a year with the Company's external auditors; and
- (c) 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 qualified accountant, compliance officer (or person occupying the same position) or compliance adviser or external auditors;

Oversight of the Company's financial reporting system, risk management and internal control systems

6.9 to review the Company's financial controls, risk management and internal control

systems;

6.10 to discuss the risk management and internal control systems with management to ensure that 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' accounting and financial reporting function;

6.11 to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

6.12 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;

6.13 to review the Group's financial and accounting policies and practices;

6.14 to review the external auditors' management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

6.15 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

6.16 to review arrangements for employees of the Company to raise concerns, in confidence, 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;

Corporate Governance Functions

6.17 to oversee, with the delegated responsibility of the Board, the corporate governance functions of the Company;

- 6.18 to develop and review the policies and practices of the Company on corporate governance and make recommendations to the Board;
- 6.19 to review and monitor the training and continuous professional development of Directors and senior management;
- 6.20 to review and monitor the policies and practices of the Company on compliance with legal and regulatory requirements;
- 6.21 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- 6.22 to review the Company's compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report;
- 6.23 to report to the Board on all the above matters; and
- 6.24 to consider any other matters specifically referred to the Audit Committee by the Board.

7. Reporting Responsibilities

- 7.1 The Audit Committee shall report directly to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

8. Authority

- 8.1 Audit Committee is delegated with the authority to inspect all accounts, reports and records of the Company.
- 8.2 In order to fulfill its duties, the Audit Committee is eligible to request the management of the Company to provide any figures related to the financial status of the Company, its subsidiaries and associates.
- 8.3 The Audit Committee Member should have access to independent professional advice at the expense of the Company, if necessary, in order to fulfill his

responsibility of as an Audit Committee Member.

Note: the independent professional advice can be sought via the financial controller or the company secretary.

8.4 The Audit Committee shall be provided with sufficient resources to perform its duties.