

Audit Committee Regulation
Al-Andalus Property Company

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Introduction

Preparation hereof aims to specify methodological framework via which Al-Andalus Property Company's Audit Committee shall work as per Companies Law Chapter Four's provisions as well as provisions of Paragraph (c) of Article 54 of Corporate Governance Regulation issued by Capital Market Authority under resolution No. (8-16-2017) dated 16/05/1438H corresponding to 13/02/2017G in accordance with Companies Law and Implementing Regulations thereof, and in line with best governance practices to which company aspires.

This Regulation shall include indication of objectives that Al-Andalus Property Company's Audit Committee seeks to achieve. Furthermore, it shall contain clarification of rules for Committee formation, selection and nomination of members thereof, term of membership and remunerations thereof as well as mechanism for temporarily appointment of members thereof in the event of vacancy of any Committee's position. In addition to description of duties entrusted to such Committee and responsibilities to be assumed thereby for achievement of objectives thereof. Furthermore, this regulation shall specify work controls and procedures, meetings organization mechanism and decision-making as well as other provisions related thereto.

This Regulation shall be approved by virtue of General Assembly's resolution, upon BOD proposal, pursuant to statutory provisions thereon. In addition, same procedures shall be followed upon performance of any amendment thereto.

Article (1): Audit Committee Objectives

- 1) Supervision of Company's financial statements, accounting procedures and financial reports' integrity as well as audit of financial statements.
- 2) Measurement and evaluation of company's internal control effectiveness and efficiency level.
- 3) Ensuring Company compliance with internal regulations, bylaws, policies and procedures related to scope of work thereof.
- 4) Supervision of company's external auditor's performance and qualifications, as well as ensuring independency thereof.
- 5) Supervision of disclosure, transparency and ethical standards compliance systems adopted by Company.
- 6) Study of remarks provided by Company's external auditor, and review of financial statements.

Article (2): Audit Committee Formation

- 1) A committee to be called (Audit Committee) shall be formed by virtue of Company's ordinary general assembly resolution upon BOD proposal. Such Committee shall consist of shareholders or others, provided that it shall include an independent member at least. In addition, no BOD executive member shall be among its members.
- 2) The number of the members of the audit committee shall not be less than three or more than five, provided that one of its member is specialized in finance and accounting.

- 3) Any person who works or has worked in the Company's finance Department, the Executive Management or for the Company's external auditor during the preceding two years may not be a member of the audit committee.
- 4) BOD Chairman shall not be Audit Committee's member.
- 5) Company shall inform Capital Market Authority of Committee's members' names and membership capacities upon appointment thereof as well as any amendments thereto during statutory term specified by Governance Regulation.

Article (3): Audit Committee Chairman

- 1) From members thereof, Committee shall select a Chairman, who shall chair meetings thereof. In the absence of Committee Chairman or whom is delegated, remaining attendees shall select a member therefrom to chair Committee meeting, provided that such member shall fulfill controls stipulated in Corporate Governance Regulation issued by Capital Market Authority.
- 2) Chairman shall represent Committee in BOD meetings as well as other meetings related thereto with any third party.
- 3) Committee Chairman shall manage Committee meetings and set agenda thereof.
- 4) Committee Chairman or whom is delegated shall attend general assembly meetings for recitation of Committee's report and respond to shareholders' inquiries regarding activities thereof as well as any other inquiries, included in Committee's competence, received during assembly meeting.

Article (4): Audit Committee's Secretary

- A). Audit Committee's secretary shall be appointed by virtue of resolution issued by Audit Committee. Further, such secretary may be Committee member or Company employee.

Secretary's responsibilities shall include:

- 1) Notifying Committee's members of its meeting dates as well as sending agenda at sufficient time prior to meeting date.
- 2) Documentation of Committee's meetings. Preparation of minutes thereof that include discussions, deliberations, and recommendations included therein; and indicate meeting's place, date as well as time of commencement and ending. Documentation and maintaining of Committee's resolutions and voting results in special and regulated register. Further, recording attending members' names and reservations expressed thereby (if any). In addition to, all attending members' signature on such minutes.
- 3) Maintaining reports submitted to Committee as well as reports and recommendations prepared thereby.
- 4) Providing Committee's members with agenda thereof as well as working papers, documents and information related thereto, in addition to any additional documents or information relevant to matters included in meeting schedule requested by any Committee's members.
- 5) Submission of draft minutes to Committee's members upon approval of Chairman thereof to express their notes thereon prior to being signed.
- 6) Verification of prompt delivery of copy of Committee's meetings' minutes as well as information

and documents related to Company to all Committee's members.

- 7) Coordination between Committee's members.
- 8) B) Committee's secretary shall not be dismissed except upon resolution thereof.

Article (5): Audit Committee's Membership Term

- 1) Committee's membership term shall extend for three (3) years in conjunction with BOD's membership term.
- 2) Committee shall be re-formed on the commencement of each BOD's session. Furthermore, Committee members may be reappointed.
- 3) Any member's membership shall expire by resignation, dismissal by assembly or expiration of BOD membership for Committee's members occupying BOD membership.

Article (6): Committee's Vacant Position

In the event of vacancy of any member's position during Committee's term, BOD shall be entitled to appoint temporary member therein, provided that such temporary member shall have experience and competence. In addition, such appointment shall be presented to ordinary general assembly at first meeting thereof. Further, new member shall complete the term of predecessor thereof.

Article (7): familiarize Audit Committee's Members

Audit Committee's new members shall be provided with induction program including explanations by executive management on Company's strategic plans, important financial and accounting matters, legal affairs, compliance programs, Company operations, guidelines on conflict of interest, professional ethics, administrative structure, Company's key policies and practices, executive managers as well as internal and external auditors. Further, induction program may include a visit to company's existing projects, as needed.

In addition, new members shall be provided with a copy of Company's memorandum of association and statute, executive summary of Company's business plans, previous meetings minutes, previous internal audit reports, internal audit plans, and other appropriate information.

Article (8): Audit Committee Meetings & Quorum

- 1) Audit Committee shall meet periodically upon call by Chairman thereof or upon request of two of members thereof, provided that such Committee shall hold four (4) meetings at least during Company's fiscal year.
- 2) Audit Committee shall meet periodically with Company's auditor and internal auditor.
- 3) Only Committee's members shall be entitled to attend meetings thereof. However, as deemed appropriate and required thereby, Committee may call Company's CEO, internal auditor, CFO, executives, or other external consultants to attend meetings thereof.
- 4) Internal auditor and company's auditor may request a meeting with Audit Committee whenever required.
- 5) Committee's quorum shall be constituted in the presence of two members. Further, Committee member shall attend meetings in person or via remote communication means, which shall be

deemed in-person attendance. Also, Committee member shall be entitled to authorize other members to attend Committee's meetings.

- 6) Committee's recommendations shall be issued by attendees' majority of votes.
- 7) Company BOD meetings' agenda shall provide Audit Committee's Chairman with an opportunity to present any relevant matters to BOD.
- 8) Invitation shall be sent to each member at least five days prior to meeting date to which meeting agenda and required documents shall be attached unless the event requires emergency meeting. In such event, meeting invitation may be sent along with meeting agenda and required documents attached thereto within five (5) days at most prior to meeting date.
- 9) In the event of expression of reservation or different opinion from Committee's resolution by Committee member, such reservation or opinion shall be recorded in Committee's meeting minutes.
- 10) Committee shall approve agenda thereof in the event of meeting thereof. In the event of objection thereto by any member, such objection shall be recorded in Committee's meeting minutes.
- 11) Each Committee member shall have the right to propose the addition of any item to agenda.
- 12) Members, who are unable to attend may attend Committee's meetings and vote on resolutions therein via modern technology means, and attendance thereof shall be deemed in-person attendance.
- 13) At its discretion, Committee shall be entitled to invite third parties to attend the meeting. However, such third parties shall not be entitled to vote.

Article (9): Audit Committee's Competences

Audit Committee shall be competent in monitoring the Company's activities and ensuring the integrity and effectiveness of reports, financial statements and internal control systems therein. Committee's duties shall include, in particular:

A) Financial Reports:

- 1) analyzing the Company's interim and annual financial statements before presenting them to the Board and providing its opinion and recommendations thereon to ensure their integrity, fairness and transparency
- 2) providing its technical opinion, at the request of the Board, regarding whether the Board's report and the Company's financial statements are fair, balanced, understandable, and contain information that allows shareholders and investors to assess the Company's financial position, performance, business model, and strategy .
- 3) analyzing any important or non-familiar issues contained in the financial reports.
- 4) accurately investigating any issues raised by the Company's chief financial officer or any person assuming his/her duties or the Company's compliance officer or external auditor.
- 5) examining the accounting estimates in respect of significant matters that are contained in the financial reports.

- 6) examining the accounting policies followed by the Company and providing its opinion and recommendations to the Board thereon.

B) Internal Audit:

- 1) examining and reviewing the Company's internal and financial control systems .
- 2) analyzing the internal audit reports and following up the implementation of the corrective measures in respect of the remarks made in such reports.
- 3) monitoring and overseeing the performance and activities of the internal auditor and internal audit department of the company, if any, to ensure the availability of the necessary resources and their effectiveness in performing the assigned activities and duties. If the Company has no internal auditor, the committee shall provide a recommendation to the Board on whether there is a need to appoint an internal auditor.
- 4) Establishment of mechanism and policy enabling employees to report illegal or unethical practices in Company.
- 5) providing a recommendation to the Board on appointing the manager of the internal audit unit or department, or the internal auditor and suggest his/her remunerations.

C) External Auditor:

- 1) providing recommendations to the Board to nominate external auditors, dismiss them, determine their remunerations, and assess their performance after verifying their independence and reviewing the scope of their work and the terms of their contracts.
- 2) verifying the independence of the external auditor, its objectivity, fairness, and effectiveness of the audit activities, taking into account the relevant rules and standards.
- 3) reviewing the plan of the Company's external auditor and its activities and ensuring that it does not provide any technical or administrative works that are beyond its scope of work and provides its opinion thereon.
- 4) responding to queries Of the Company's external auditor.
- 5) reviewing the external auditor's reports and its comments on the financial statements and following up the procedures taken in connection therewith.

D) Ensuring Compliance:

- 1) reviewing the findings of the reports of supervisory authorities and ensuring that the Company has taken the necessary actions in connection therewith.
- 2) ensuring the Company's compliance with relevant laws, regulations, policies and instructions.
- 3) reviewing the contracts and proposed Related Party transactions and providing its recommendations to the Board in connection therewith.
- 4) reporting to the Board any issues in connection with what it deems necessary to take action on and providing recommendations as to the steps that should be taken.

Article (10): Audit Committee's Duties and Responsibilities

- 1) Audit Committee shall consider Company's financial statements as well as reports and remarks provided by auditor and express its notes thereon (if any). Moreover, it shall prepare a report on its opinion regarding adequacy of Company's internal control system and other works performed thereby within its scope of competence. BOD shall deliver sufficient copies of such report to Company's head office at least twenty-one (21) days prior to general assembly meeting to provide each shareholder with copy thereof. Such report shall be recited during assembly meeting.
- 2) Committee members shall attend all committee meetings and participate actively in discussions thereof. In the event that any Committee member is unable to attend, such member shall inform Audit Committee Chairman thereof.
- 3) Members shall maintain Company's secrets.
- 4) Committee members shall not perform any executive work for Company or any work conflicting with independence thereof.
- 5) Committee members shall develop their performance and knowledge to serve Company's best interest.
- 6) Committee members shall be credible, trustworthy, objective, and independent in performance of work thereof.
- 7) Committee members shall disclose and reveal all personal operations implemented with Company, nature thereof, and any personal relationship with BOD and executive management.
- 8) Committee shall discuss and review its performance at least once per year for determination of its effectiveness and agreement on measures of method to improve and increase its efficiency. A report on Committee's performance shall be submitted to BOD.
- 9) In the event of difference of opinion between Committee and external or internal auditors or management, BOD shall be informed thereof for guidance.

Article (11): Audit Committee's Acknowledgment

All Audit Committee members shall sign an acknowledgment of form acceptable by Company in which their financial or non-financial interests in Company or in any company of its groups shall be clarified prior to their appointment as Committee members.

Article (12): Arrangements for Providing Remarks

The audit committee shall develop arrangements that enable the Company's employees to confidentially provide their remarks in respect of any inaccuracies in the financial or other reports. The audit committee shall ensure that such arrangements have been put into action through an adequate independent investigation in respect of the error or inaccuracy and shall adopt appropriate follow-up procedures.

Article (13): Powers of the Audit Committee

- 1) A) Review the Company's records and documents.
- 2) Request any clarification or statement from BOD or executive management members.
- 3) Request from BOD to call for Company's general assembly if its activities have been impeded by the Board or if the Company has suffered significant losses and damages.

Article (14): Conflict between Audit Committee & BOD

If a conflict arises between the recommendations of the Audit Committee and the board resolutions, or if the board refuses to put the Committee's recommendation into action as to appointment or dismissal the Company's external auditor, or determination its remuneration, assessing its performance or appointment the internal auditor, BOD's report shall include Committee's recommendation and justifications as well as reasons for not following such recommendations.

Article (15): Audit Committee Members' Remunerations

- 1) Audit Committee members, including committee Chairman, shall be entitled to an annual remuneration as per the remuneration and compensation policy of BOD and committees approved by shareholders general assembly, as follows:
 - Committee Chairman shall be entitled to an annual remuneration amounting 100,000 SAR.
 - Committee member shall be entitled to an annual remuneration amounting 50,000 SAR.
- 2) Audit committee members, including Committee Chairman, shall be entitled to an attendance allowance amounting 3,000 SAR for each session attended thereby.
- 3) Remunerations shall be paid on the commencement of each Gregorian year, while attendance allowance shall be paid every six (6) months of Gregorian year.
- 4) Fixed annual remuneration amount shall not include travel and relevant costs. Rather, such costs shall be compensated as follows:
 - A) Travel and airline tickets (business class) costs.
 - B) Hotel accommodation and standard business costs
 - C) Above-mentioned costs shall be compensated upon receipt of actual invoices.
- 5) Committee members' compensations and remunerations shall be disclosed in details in BOD's annual report submitted to general assembly as per controls stipulated in Corporate Governance Regulation issued by Capital Market Authority. Further, members' remunerations and compensations as well as any financial or in-kind benefits shall be clarified and separated whether for BOD or non-BOD member.

Article (16): Attendance of Annual General Assembly Meeting

- 1) Committee Chairman or whom he delegates shall attend Company's annual general assembly meeting to respond to shareholders' inquiries related to Committee's activities.
- 2) Committee shall prepare an annual report on its opinion regarding adequacy of Company's internal control system and other implemented activities within scope of competence thereof.
- 3) Copies of Audit Committee's report shall be available at the Company's head office at least twenty-one (21) days prior to shareholders general assembly meeting, and such copies shall be distributed to shareholders attending assembly meeting.

- 4) Audit Committee's report shall be recited during assembly meeting by Committee Chairman or representative thereof.

Article (17): Regulation Amendment Procedures

BOD may approve any amendments hereto at any time deemed appropriate thereby upon Audit Committee recommendation, provided that such amendments shall be approved by shareholders general assembly.