



## 新疆天业节水灌溉股份有限公司

### XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED\*

*(a joint stock limited company incorporated in the People's Republic of China)*

(Stock Code: 840)

#### Terms of Reference and Procedure of the Audit Committee

(Adopted and passed on 7 February 2006 and revised on 23 March 2012 and 30 December 2015)

#### DEFINITION

Company	Xinjiang Tianye Water Saving Irrigation System Company Limited
Board	the board of directors of the Company
Audit Committee	the audit committee under the Board of the Company
Director(s)	the director(s) of the Company
Independent Non-executive Director(s)	the independent non-executive director satisfies the independence requirement of the Listing Rules
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Senior Management	the category of personnel deemed by the Listing Rules to be the senior management of the Company

#### PURPOSE FOR ESTABLISHING THE AUDIT COMMITTEE

The purpose of setting up the Audit Committee is to assist the Board to fulfill the duties of accounting, auditing, financial reporting, risk management, internal control and in compliance with the relevant laws and regulations and custodian obligations of the Company and its subsidiaries (the “**Group**”), including but not limited to assist the Board to supervise (a) the integrity of the financial reporting of the Company, (b) the Company’s financial control, internal control and risk management system, (c) the compliance of the requirements of laws and regulations, (d) the qualifications and independence of the independent auditor of the Company, and (e) the fulfillment of the duties of the independent auditor of the Company and the risk management and internal audit function of the Company.

#### COMPOSITION

1. The Audit Committee was passed and established by the Board on 7 February 2006.

2. The members of the Committee shall be appointed by the Board and shall not be less than three Directors with majority of them shall be Independent Non-executive Directors. Pursuant to the Listing Rules, There shall be at least one member of the Audit Committee shall have appropriate professional qualifications or accounting or related financial management expertise prescribed by Rule 3.10(2) of the Listing Rules and the standard of the Listing Rules shall be satisfied.
3. A former partner of the audit firm currently responsible for auditing the account of the Company shall be prohibited from acting as the member of the Audit Committee for a period of one year commencing:
  - (i) on the date of his ceasing to be a partner of such audit firm; or
  - (ii) on the date of his ceasing to have any financial interests in such audit firm,whichever is the later.
4. Should any member of the Audit Committee is incapable of fulfilling his duties for whatever reason, the Board shall appoint appropriate member of the Audit Committee in a timely manner to ensure that sufficient quorum of the Audit committee could be maintained.
5. The Chairman of the Audit Committee shall be appointed by the Board and shall be an Independent Non-executive Director. The chairman of the Audit Committee shall have an additional or a casting vote in the case of an equality of votes.
6. The secretary of the Audit Committee shall be the company secretary.

#### **DISCLOSURE OF INTERESTS**

7. Every member of the Audit Committee shall disclose to the Audit Committee any personal financial interests in any matter resolved by the Committee, and any potential conflict of interest involving him as a result of such matters. Any member entitled to such interest or being involved in such potential conflict of interests shall abstain from the voting of the resolution of the Audit Committee in respect of such interests or potential conflict of interest and avoid from involving in any discussion in respect of such resolutions. Resignation shall be submitted to the Audit Committee if request is made from the Board.

#### **PROCEDURE OF MEETING**

8. Notice of Meeting:
  - (i) Unless agreed by all members of the Audit Committee, the notice of the meeting shall not be less than seven days;
  - (ii) The meeting may be notified by any member to the secretary of the Audit Committee and may be notified to every member by the secretary of the Audit Committee in writing or otherwise. It may also be notified to other members directly by any member in writing or orally. The secretary of the Audit Committee may also notify all members in writing to convene the meeting. The aforesaid “in writing” notification includes the notice carried by facsimile;

- (iii) In case of the meeting convened by oral notice, the secretary of the Audit Committee shall confirm in writing as soon as possible and before the convening of the meeting; and
  - (iv) In the written notice and the oral notice, the purpose, time, venue, date, agenda of the meeting shall be stated, and the related files shall be provided to the secretary of the Audit Committee to review. The files and the agenda shall be delivered together and the agenda and the notice of the meeting, or the written notice confirming the oral notice, shall be delivered together.
9. The quorum for the Audit Committee meeting shall be two members, who may attend the meeting in person or by telephone conference or other communication equipment by means of which all persons participating in the meeting are capable of hearing each other.
10. The chairman of the Audit Committee may propose to convene an interim meeting, but at least two meetings shall be convened annually. The Audit Committee should periodically meet the following persons separately:
- (i) the management of the Company;
  - (ii) the person in charge of internal audit department of the Company or other person responsible for internal audit function; and
  - (iii) the external auditors of the Company,
- to discuss the budget, revised budget and drafts of quarterly, semiannual and annual report proposed by the Board, or any matters to which the attention of the Audit Committee should be drawn in the opinion of the Audit Committee or any of the persons mentioned above or the Company. The external auditors of the Company may request that an Audit Committee meeting be held if they consider it necessary.
11. The financial controller and person in charge of the finance department of the Company and a representative of the external auditors of the Company should attend the Audit Committee meetings. However, at least once a year, the Audit Committee should meet the external and internal auditors separately without the presence of any management to consider any matters deemed necessary by the Audit Committee.

## **POWERS AND DUTIES**

12. The Board authorizes the Audit Committee to:
- 12.1 investigate any matters within the terms of reference of the Audit Committee and seek any reports and information as required by the Audit Committee from the employees and professional advisors (including auditors) of the Group; all such employees are directed by the Board to cooperate with any requests and respond to any questions made by the Audit Committee;
  - 12.2 seek legal or other professional advice from independent third parties with relevant experience and expertise if the Audit Committee considers this necessary at the expense of the Company;
  - 12.3 ensure any person with the relevant experiences and talents to attend the meeting of the Audit Committee if the Audit Committee thinks fit;

- 12.4 monitor the senior management of the Group on their compliance with the policies set out by the Board or applicable laws and rules (including the Listing Rules and those set out by the Board) in performing their duties;
  - 12.5 investigate all suspected frauds and request the management to conduct investigation and submit reports regarding such matters;
  - 12.6 evaluate the risk management and internal control measures and system of the Group;
  - 12.7 evaluate the performance of the employees of accounting and internal audit department of the Group;
  - 12.8 recommend the Board to consider enhancing the risk management and internal control measures or system of the Group;
  - 12.9 request the Board to convene the general meeting to remove any director and other employees if there is evidence to show or suspect them failing their duties;
  - 12.10 request the Board to take any necessary actions, including to convene an extraordinary general meeting, change and remove the auditors of the Group;
  - 12.11 Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or removal of the external auditors, the Audit Committee should procure the inclusion of its recommendation in the Corporate Governance Report in the annual report of the Company and also the reason(s) why the Board has taken a different view; and
  - 12.12 The Audit Committee should be provided with sufficient resources to discharge its duties.
13. The duties of the Audit Committee are:

**Relationship with auditors**

- 13.1 to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, and dealing with any issues in relation to such resignation or removal;
- 13.2 to be directly responsible for overseeing the work of the external auditors, and the external auditors must directly report to the Audit Committee;
- 13.3 to review and decide on its own the prior approval of the annual engagement letter of the external auditors of the Company, including the proposed service fee thereof, all non-audit services as permitted by all rules and regulations of auditing and under the Listing Rules, and the relationship between the Company and such external auditors. If necessary, such approval may be made after receiving the opinion of the management of the Company;

- 13.4 to assess and monitor the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with applicable standards, including but not limited to:
- (i) monitoring the compliance of the external auditors of the Company with the requirements in relation to the rotation of auditing partners as contained in the Listing Rules;
  - (ii) monitoring the compliance of the Company with the requirements in relation to the conflict of interests of employees as contained in the Listing Rules;
  - (iii) liaising with the external auditors to confirm the compliance of the partners of the external audit firm with applicable rules in relation to their remuneration;
  - (iv) discussing with the auditors the nature and scope of the audit and reporting obligations before the audit commences; if more than one external audit firms are involved, ensuring their coordination;
- 13.5 to develop and implement policy on 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. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- 13.6 to review the external auditors' annual audit planning and discuss with them (including the schedule and scope of audit), and to supervise the progress and findings of such plans during the year;
- 13.7 to resolve any disputes in relation to financial reporting between the external auditors and management of the Company.

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

- 13.8 to review the Company's financial statements and annual report and accounts, semiannual report and quarterly report with the management, the Company's external auditors and (if applicable) managers of internal audit department of the Company, and to review significant financial reporting opinions contained in them. In this regard, when reviewing these annual report and accounts, semiannual report and quarterly report of the Company before submission of the same to the Board, the Audit Committee should focus particularly on:
- (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) all such alternative treatment methods of financial information as discussed between the external auditors and management and the impact of using such other disclosure and treatment methods, as well as the method the external auditors preferred;

- (v) all significant written correspondence between the external auditors and management, such as any management's letters and any statements before adjusting for difference;
- (vi) the going concern assumptions and any qualifications;
- (vii) compliance with accounting standards;
- (viii) compliance with the Listing Rules and other regulatory requirements in relation to financial reporting;
- (ix) whether the arrangements in relation to connecting transactions are fair and reasonable, their impact on the Group's profits and whether they are in compliance with the terms of the agreements entered into in relation to such transactions;
- (x) whether the presentation and disclosure of financial statements is able to enhance the transparency of the Group and sufficient to allow the fair understanding of the Group's financial position by investors;
- (xi) the status of cash flows of the Group; and
- (xii) the issues arising from the discussion of quarterly, interim limited assess and annual assess with auditors, or such other matters that should be discussed in the opinion of auditors (such discussion may be conducted without the presence of the management of the Group when necessary) and providing recommendation and suggestion to the Board in this regard.

13.9 In regard to 13.8:

- (i) members of the Audit Committee shall liaise with the Board, senior management of the Company and the persons appointed as qualified accountants of the Company. The Audit Committee shall meet, at least twice a year, with the Company's external auditors; and
- (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in these financial reports and accounts, it shall give due consideration to any matters that have been raised by the Company's qualified accountants, compliance officer or auditors.

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

13.10 to review the Company's financial control, internal control and risk management systems and other significant financial issues;

13.11 to review the annual reports prepared by the management and certified by the Company's external auditors, where the external auditors should evaluate the effectiveness of the Company's internal control on financial reporting and state the responsibilities of establishing and maintaining effective internal control by the management;

- 13.12 to discuss the risk management and internal control system with management to ensure that management has performed its duty to have an effective risk management and internal control system in place and has generally assessed the performance of the Company's management;
- 13.13 to consider major investigation findings on risk management and internal control matters on its own initiative or as delegated by the Board and management's response to these findings;
- 13.14 to ensure coordination between the internal and external auditors; to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and to review and monitor the effectiveness of the internal audit function;
- 13.15 to review the Group's financial and accounting policies and practices, and to oversee the Company's financial operation and core business;
- 13.16 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;
- 13.17 to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- 13.18 to report to the Board on the matters included in the Code on Corporate Governance Practices of Appendix 14 of the Listing Rules;
- 13.19 to review the following arrangements made by the Company: employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, 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;
- 13.20 to timely understand the reasons for resignation of Executive Directors, general manager, financial controller or head of internal audit department;
- 13.21 to draft working and summary reports for the period for the Board's review and for publication in the quarterly, interim and annual reports of the Group, respectively;
- 13.22 to consider the addition, change and removal of members of the Audit Committee and auditors proposed by the Board;
- 13.23 to review with the Company's financial controller and external auditors periodically:
- (i) any significant insufficiency and deficiency in the design or implementation of internal control measures regarding financial reporting that may have adverse impact on the capabilities of recording, dealing with, summarizing and reporting financial information; and
  - (ii) any fraud, irrespective of its significance, committed by management or other employees who play a significant role in the internal control of financial reporting of the Company;

13.24 to act as the key representative body between the Company and its external auditors for overseeing the relationship between them; and

13.25 to review such other matters as delegated by the Board.

## **OTHERS**

14. The Audit Committee should report to the Board. The chairman of the Audit Committee should report to the Board on its findings and recommendations at the next Board meeting following the Audit Committee meeting.
15. The Audit Committee shall establish procedures in relation to (i) receiving, keeping and processing complaints about accounting, internal accounting control or auditing received by the Company; (ii) accounting or auditing issues raised by the Company's employees confidentially and anonymously.
16. The Audit Committee should obtain advice from independent professionals to the extent it thinks fit, including engaging independent consultants, accountants, advisors or other persons (whether it is subject to the Board's approval) to assist it in discharging its duties and responsibilities. The expense of engaging such independent professional advisors shall be borne by the Company.
17. The Audit Committee should, within its terms of reference, do such other things as deemed necessary or appropriate by the Audit Committee or the Board, and consider such other things as deemed necessary or appropriate by the Audit Committee or the Board.
18. The Audit Committee shall, at least once a year, review the effectiveness of the Company's risk management and internal control systems and report the completion of such review to the shareholders in the Corporate Governance Report. Such review shall cover all major aspects of the control system, including financial control, operation control, compliance control, and risk management.
19. The Audit Committee should appoint at least one member of the Audit Committee to attend the annual general meeting of the Company to answer the question raised by the shareholders relating to audit activities.
20. The minutes of the Audit Committee should be prepared and kept by the secretary of the Audit Committee. Upon reasonable notice is given, any Director may review such minutes in any reasonable time. Any secretary of the Audit Committee should deliver within a reasonable period of time after the end of the meeting for which he is the secretary the draft and final version of such minutes to all the members of the Audit Committee with the draft version for the members' comment and the final version for their record.
21. The Audit Committee should report to the Board all of its decisions or recommendations.
22. The terms of reference of the Audit Committee should be posted on the Company's website and made available to the public.



## **EVALUATION ON THE AUDIT COMMITTEE**

23. The Audit Committee should evaluate its performance annually. Such evaluation should state all such matters as the Audit Committee thinks relevant to its performance, including the review and evaluation of the adequacy of these terms of reference, which should be conducted in such manner as the Audit Committee thinks appropriate.

## **THE SUSTAINABLE APPLICATION OF THE MEMORANDUM OF THE COMPANY**

24. For anything not prescribed by the above requirements but the requirements of the procedure of the Board's meeting is prescribed by the Memorandum of the Company, shall be applicable to the procedure of the Audit Committee meeting.

## **THE RIGHTS OF THE BOARD**

25. All requirements of this resolution may be amended, supplemented and abrogated anytime under the premises of observing the Memorandum of the Company and the Listing Rules, including the Code on Corporate Governance Practices of Appendix 14, provided that such amendment, supplement and abrogation shall not affect before any related action is made the effectiveness of the resolutions passed or the actions adopted by the Audit Committee.

This document is prepared in Chinese. In case of discrepancy, the Chinese version shall prevail.

31 December 2015

\* *For identification purpose only*