

**TERMS OF REFERENCE AND PROCEDURE  
OF THE AUDIT COMMITTEE  
OF CHINA TIANRUI GROUP CEMENT COMPANY LIMITED**

*(Incorporated in Cayman Islands with limited liability)*

**Adopted and passed by the Board on 12 December 2011**

**And revised on 23 March 2012 and 30 December 2015**

**DEFINITIONS**

Company	China Tianrui Group Cement Company Limited (中國天瑞集團水泥有限公司)
Board	the board of Directors of the Company
Audit Committee	the audit committee of the Board of the Company
Director(s)	the director(s) of the Company
Independent Non-executive Director(s)	the independent non-executive director(s) who has (have) satisfied the requirements under the Listing Rules
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Senior Management	the type of staff that is deemed by the Board to be senior management pursuant to the Listing Rules and other applicable laws

**PURPOSE OF THE ESTABLISHMENT OF THE AUDIT COMMITTEE**

The Audit Committee is established for the purpose of assisting the Board in performing its fiduciary duties relating to accounting, auditing, financial reporting, risk management and internal control of the Company and its subsidiaries (“**Group**”) and the Group’s compliance with the relevant laws and regulations, including but not limited to, assisting the Board in supervising (a) the completeness of the financial report of the Company; (b) the Company’s compliance with the requirements of laws and regulations; (c) the qualifications, independence and performance of duties of the independent auditor of the Company; (d) the performance of duties of the internal audit department of the Company, and (e) the design, implementation and monitoring of the risk management and internal control system of the Company.

**CONSTITUTION**

1. The members of the Committee shall be appointed by the Board and shall consist of not less than three Directors, all of which shall be non-executive Directors and a majority of which shall be Independent Non-executive Directors. According to the Listing Rules, at least one of the members of the Audit Committee shall have appropriate professional qualifications or accounting or related financial management expertise as set out in Rule 3.10(2) of the Listing Rules and fulfill the standards of the Listing Rules.

2. A former partner of the Company's current auditing firm auditing the accounts of the Company shall not act as a member of the Audit Committee for a period of one year from the following date (whichever is later):
  - (i) the date of his ceasing to be a partner of the auditing firm; or
  - (ii) the date of his ceasing to have any financial interest in the auditing firm.
3. If for any reasons any member of the Audit Committee fails to perform its duties, the Board shall timely appoint appropriate person to be member of the Audit Committee to ensure that a quorum for the Audit Committee is presented.
4. The Chairman of the Committee, who shall be an Independent Non-executive Director, shall be appointed by the Board. If the numbers of votes for and against any resolution are the same, the chairman of the Audit Committee shall have additional or decisive vote.
5. The secretary of the Audit Committee shall be the Company Secretary who shall attend all meetings of the Committee.

### **INTERESTS DISCLOSURE**

6. Any member of the Audit Committee shall disclose to the Audit Committee any of its personal financial interests in any matter determined by the Audit Committee and any potential conflict of interests arising therefrom. Any member entitled to such interests or involved in such potential conflict of interests shall abstain from voting on the resolution of the Audit Committee in relation to such interests or potential conflict of interests and from participating in any discussion in relation to such resolutions. For member who does not abstain, the issues of whether such member shall abstain from participating in the voting on the resolution or any discussion shall be handed to the chairman of the meeting. The decision of the chairman of the meeting shall be conclusive. If such member is the chairman of the meeting, then issues on whether such member shall abstain from participating in the voting or any discussion shall be handed to the board. Such resolution shall be conclusive.

### **MEETING PROCEDURES**

7. Notice of meeting:
  - (i) Unless agreed by all the members of the Audit Committee, the notice period for meeting shall be not less than 7 days;
  - (ii) Notice of meeting can be given directly in written or orally by any member or the secretary of the Audit Committee to other members. And subject to the confirmation of a valid agenda, if necessary, a formal written notice will be given by the secretary of the Audit Committee; and
  - (iii) The written notice shall specify the purpose, time, venue, date and agenda of the meeting, and related documents shall be provided to all members and the secretary of the Audit Committee for review.

8. A quorum for the meeting of the Audit Committee shall be two members. The members may participate in the meeting in person or through telephone conferencing or other communication equipment by means of which all persons participating in the meeting are capable of hearing each other.
9. The Audit Committee shall convene meetings at least twice each year.
10. The financial controller and person in charge of the financial department and a representative of the external auditor of the Company shall attend the meeting of the Audit Committee as observers. Other employees who have specific responsibility for the scope of audit can be invited to attend the meeting. However, the Audit Committee shall discuss with internal and external auditor individually on matters which the Audit Committee considers that it needs to know at least once every year in the absence of the executive Directors and the Senior Management.

## **POWER AND DUTIES**

The Board authorizes the Audit Committee:

- (i) to investigate in any matters within the scope of the power of the Audit Committee, and to request the employees and professional consultant (including auditor) of the Group for any report and information required by the Audit Committee; the Board shall instruct all such employees to meet any requirements and answer any questions of the Audit Committee;
- (ii) to seek legal advice or professional opinions from other independent third parties with related experience and professional expertise at the expense of the Company where the Audit Committee considers necessary;
- (iii) to ensure, if the Audit Committee thinks fit, that any persons having the relevant experience and expertise can attend the Audit Committee;
- (iv) to monitor whether the Senior Management of the Group have violated any policies prescribed by the Board or breached any applicable laws and regulations (including the Listing Rules and the rules prescribed by the Board) in performing their duties;
- (v) to investigate all suspected fraudulent acts, non-compliance issue, non-compliance with risk management and internal control or suspected infringement of laws and regulations, and to request the management to make investigation and submit reports thereof;
- (vi) to review the Group's risk management and internal control procedures and system;
- (vii) to review the performance of the Group's employees in the accounting and internal audit department; to review the annual audit plan of the Company;
- (viii) to recommend the Board to improve the Group's risk management and internal control procedures and system;
- (ix) to request the Board to convene a shareholders' meeting for the purpose of revoking the appointment of any Director and to dismiss any employees if there is evidence showing that the relevant Director and/or employee has failed to discharge his/her duties properly;

- (x) to request the Board to take any necessary actions, including convening a special general meeting to replace and dismiss the auditors of the Group;
- (xi) to state in the Corporate Governance Report of the Company's annual report the Audit Committee's recommendations and the reasons why the Board takes a different view where the Board disagrees with the Audit Committee's views on the selection, appointment and resignation or dismissal of the external auditor; and
- (xii) to be provided with sufficient resources to discharge its duties.

11. The duties of the Audit Committee:

**Relationship with auditors**

- (i) To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor; to approve the remuneration and terms of engagement of external auditors, and to address any issues regarding resignation or dismissal of such auditor;
- (ii) To be directly responsible for supervising the work of external auditor who shall directly report to the Audit Committee;
- (iii) To review and determine at its discretion approval in advance the employment letter for external auditor every year, including contemplated therein service fee, all non-audit services permitted by rules and regulations of audit and the Listing Rules and the relationship between the Company and such external auditor. If necessary, such approval can be made after the receipt of the opinion of the management of the Company;
- (iv) To review and monitor the independence and objectivity of the external auditor and the effectiveness of the audit process in accordance with applicable standards, including but not limited to the following:
  - (a) to supervise external auditor's compliance with the requirement for rotation of partners and employees of the auditor as set out in the Listing Rules;
  - (b) to supervise the Company's compliance with the requirements in relation to employees' conflict of interests as set out in the Listing Rules;
  - (c) to communicate with the external auditor to ensure that the remuneration of the partners of the external auditor complies with applicable rules; and
  - (d) to discuss with the auditor before commencement of audit the nature, scope and related reporting obligations of the audit; to make sure that participating external auditors are cooperated with each other when more than one external auditor are participating in the audit;
- (v) To formulate and implement policies for appointment of external auditors to provide non-auditing services. For the purpose of this provision, external auditors includes any entity that is under common control, ownership or management with the audit firm, or any entities that a reasonable and informed third party who is knowing all relevant information would reasonably conclude to be part of the audit firm

nationally or internationally. The Audit Committee shall report to the Board, identifying and making recommendations on any matters where any action or improvement is needed;

- (vi) To review annual audit plan of the external auditor, to discuss with the external auditor about the nature, scope and related reporting obligation of auditing (including schedule and scope of the auditing activities), and to supervise the progress and results of such plan during the year; and
- (vii) To settle all disputes between the external auditor and management of the Company in relation to the financial report.

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

- (viii) To review with the management, the external auditor of the Company and manager of the internal audit department of the Company (if applicable) on the integrity of the Company's financial statements and annual report and accounts and half-year report, and to review significant opinions on financial reporting contained in such financial statements and reports (to discuss in the absence of the management where necessary). In this regard, before submission of the annual reports and accounts and half-yearly reports of the Company to the Board, the Audit Committee shall focus particularly on:
  - (a) whether the accounting policy is prudent and consistent, whether the financial reports are authentic in all respects, and whether any changes in accounting policies and practices are made;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from the audit;
  - (d) all other treatment method for financial information discussed between the external auditor and the management, the impact of using such other disclosure and treatment method, and treatment method that external auditor inclines to use;
  - (e) all other significant written communications between the external auditor and the management, such as any management letter and any unadjusted differential list;
  - (f) the going concern assumptions and any qualifications;
  - (g) whether accounting standards are complied with;
  - (h) whether the Listing Rules and legal requirements in relation to financial reporting are complied with;
  - (i) whether connected transactions are fair and reasonable, their impact on the profit of the Group, and whether they are conducted according to the terms of the agreement for the relevant transactions;

- (j) whether the display method for or disclosed data in the financial statements can increase the transparency of the Group and are sufficient to give the investors a fair view of the Group's financial status;
  - (k) cash flow status of the Group;
  - (l) discussion with the auditor on problems arising from interim limited review and final audits, or on any matters the auditor considered necessary to discuss (in the absence of management where necessary), and giving suggestion and advices to the Board in this regard; and
  - (m) Other relevant issues.
- (ix) For the purpose of (viii) above:
- (a) members of the Audit Committee shall liaise with the Board and Senior Management of the Company. The Audit Committee shall meet at least twice a year with the external auditor of the Company; and
  - (b) the Audit Committee shall consider any significant or unusual items that are or may need to be reflected in such financial statements and accounts, and shall give due consideration to any matters that have been raised by the Company's staff responsible for accounting and financial reporting function, and by compliance officer or auditors.

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

- (x) To review the Company's financial controls, risk management and internal control systems;
- (xi) To discuss the risk management and internal control systems with the management at least once each year to ensure that the management has performed its duty to establish effective systems, where the scope of the discussion shall cover all major aspects of internal control (including financial control, operational control and compliance control), the adequacy of resources, staff qualifications and experience, and training programmes for staff and budget regarding the accounting and financial reporting function of the Company;
- (xii) On its own initiative or as delegated by the Board, to consider major investigation findings on risk management and internal control matters and the management's response to these findings;
- (xiii) To ensure co-ordination between the internal and external auditors. The Audit Committee shall also ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and shall review and monitor its effectiveness;
- (xiv) To review the Group's financial and accounting policies and practices, and to supervise financial operation and core business status of the Company;

- (xv) To review the external auditors' letter on auditing to the management, any material queries raised by the auditors to the management about accounting records, financial accounts or systems of control and the management's response;
- (xvi) To ensure that the board will provide a timely response to the issues raised in the external auditor's letter on auditing to the management;
- (xvii) To report to the Board on matters contained in Appendix 14 to the Listing Rules;
- (xviii) To review arrangements set by the Company: the Company's employees can raise concerns in confidence about possible improprieties in financial reporting, risk management and internal control or other matters; to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions;
- (xix) To timely ascertain the reasons for departure upon the resignation of any executive director, general manager, financial controller or internal audit manager/internal credit control manager;
- (xx) To prepare work reports for presentation to the Board and to prepare summary of work reports for inclusion in the Group's interim and annual reports;
- (xxi) To act as the key representative body for overseeing the Company's relations with the external auditors; and
- (xxii) To consider other topics, as defined by the Board.

## **OTHER PROVISIONS**

12. The Audit Committee shall report to the Board. The Chairman of the Audit Committee shall report the results and suggestion to the Board at the forthcoming meeting of the Board after the meeting of the Audit Committee.
13. The Audit Committee shall set up the relevant procedures (i) receiving, keeping and handling complaints regarding accounting, internal accounting controls or auditing matters; and (ii) accounting or auditing matters submitted by the employees of the Company in confidence and anonymity.
14. The Audit Committee shall, at the Company's expense, seek advice from independent experts within the scope it considers to be appropriate, including appointing independent consultant, accountant, consultant or other person (whether it shall be approved by the Board) to assist the Audit Committee in performing its functions and duties.
15. The Audit Committee shall, within the scope of its duties, take other actions as the Audit Committee or the Board consider necessary or desirable, and shall consider other matters as the Audit Committee or the Board consider necessary or desirable.
16. The Audit Committee shall provide the Board with related information necessary for assisting the Board in reporting to the shareholders of the Company annually pursuant to the Listing Rules or the requirements of other regulatory authorities applicable to the Company in connection with auditing matters.

17. The Audit Committee shall send at least one of its members to participate in the annual general meeting of the Company to answer questions raised by shareholders of the Company regarding auditing matters.
18. Full minutes of meetings of the Audit Committee shall be prepared and kept by the secretary of the Audit Committee and shall be open for inspection at any reasonable time on reasonable notice by any Director except the ones regarding investigations or potential investigations of such director. Any secretary of the Audit Committee shall, within a reasonable time after conclusion of the meeting at which he/she acts as the secretary, submit preliminary and final versions of the minutes to all members of the Audit Committee for their comment and records (if such minutes involves investigations of any members, such member will not be provided those minutes).
19. The Audit Committee shall report to the Board all its decisions or suggestions.
20. The terms of reference of the Audit Committee shall be published on the Hong Kong Stock Exchange's website and the Company's website.

#### **APPRAISAL ON THE AUDIT COMMITTEE**

21. The Audit Committee shall appraise its results every year. Such appraisal shall states all matters the Audit Committee considers relating to its results, including reviewing and appraising the sufficiency of these terms of reference, and such appraisal shall be carried out as the Audit Committee in their opinion consider appropriate.

#### **CONTINUING APPLICATION OF THE ARTICLES OF ASSOCIATION OF THE COMPANY**

22. The provisions of the articles of association of the Company regulating the meeting procedures of the Board, so far as the same are applicable and are not replaced by the provisions in these terms of reference, shall apply to the meeting procedures of the Audit Committee.

#### **RIGHTS OF THE BOARD**

The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including Appendix 14 to the Listing Rules), amend, supplement and revoke at any time these terms of reference provided that no amendments, supplementation and revocation thereof shall invalidate any prior act and resolution of the Audit Committee.