

# **Terms of Reference and Rules of Procedure for Meeting of Audit Committee under the Board of Jilin Province Chuncheng Heating Company Limited\*<sup>1</sup>**

## **CHAPTER 1 GENERAL PROVISIONS**

**Article 1** In order to enhance the internal control, audit and connected transaction systems, ensure effective management of the Board for the senior management of Jilin Province Chuncheng Heating Company Limited\* (the “Company”) in financial reporting, risk management and internal control, and improve the corporate governance structure, the Company sets up the Audit Committee under the Board and formulates these terms of reference in accordance with the Company Law of the People’s Republic of China (the “Company Law”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”) and other relevant laws and regulations and the Articles of Association of the Company (the “Articles of Association of the Company”).

**Article 2** The Audit Committee (the “Committee”) is a special committee established by the Board and mainly responsible for performing its monitoring function in the following areas:

- (1) truthfulness of financial reports and procedures for financial reporting;
- (2) effectiveness of risk management and internal control systems;
- (3) ensuring the adequacy of resources, qualifications and experience of the accounting and financial reporting staff in accounting, internal audit and financial reporting functions and their staff training programs and budget expenditure of the Company;
- (4) reviewing the findings of internal investigations and management’s response regarding any suspected frauds or irregularities or suspected violations of laws, rules and regulations;
- (5) assessing whether the Company has any significant failings or weaknesses in internal control;
- (6) ensuring the extent and frequency of adequate and effective communication of monitoring results by the relevant functional departments to the Board and its committees;
- (7) assessing the changes in the nature and extent of significant risks faced by the Company after the previous year and the Company’s ability to respond to the changes in its businesses and the external environment;
- (8) performance of internal audit functional departments and personnel;
- (9) appointment of external auditors and assessment of their qualifications, independence and performance;

---

<sup>1</sup>*Note:* This document is provided in Chinese and English versions. In case of any inconsistency between Chinese and English versions, the Chinese version shall prevail.

\* *for identification purpose only*

- (10) periodic review and annual audit of the Group's financial reports; and
- (11) compliance with applicable accounting standards and legal and regulatory requirements on financial information disclosures.

The Committee shall be responsible for risk management and monitoring and shall be accountable to the Board. The senior management shall be responsible for the preparation, submission and truthfulness of financial reports and provide the confirmation to the Committee regarding the effectiveness of the relevant risk management and internal control systems. The senior management and external auditors shall both be ultimately accountable to the Board and shareholders.

## CHAPTER 2 COMPOSITION

**Article 3** The Committee shall consist of members who shall all be non-executive directors and shall comprise at least three members. They shall be directly appointed by the Board. The majority of the members shall be independent non-executive directors. The Committee shall be chaired by an independent non-executive director.

**Article 4** At least one member of the Audit Committee shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

**Article 5** A former partner of the existing auditor responsible for auditing of the Group's accounts shall not serve as member of the Group's Audit Committee within two years after any of the following dates (whichever is later):

- (1) the date when he ceases to be a partner of the firm; or
- (2) the date when he ceases to have any financial interest in the firm.

**Article 6** Members of the Committee shall attend regular meetings of the Committee, and shall actively express their opinions on matters proposed at the meetings, have a thorough understanding of the roles and responsibilities of the Committee and themselves as members of the Committee, and be familiar with the operation mode, business activities and development of the Group.

**Article 7** The person in charge of internal audit of the Company and its subsidiaries (the "Group") shall be present at the meetings of the Committee to provide assistance. At the request of the Committee, the senior management, the person in charge of the finance department and representatives of external auditors of the Group shall also be in attendance in part or whole of any meeting of the Committee or participate in the discussion of certain matters proposed at the meetings.

**Article 8** The secretary to the Board or the joint company secretaries or their appointed representatives shall be the secretary to the Committee.

## CHAPTER 3 DUTIES AND RESPONSIBILITIES

### Article 9 Financial Reporting

- (1) The Committee shall be responsible for reviewing and monitoring the effectiveness of the financial reporting procedures implemented by the senior management and their compliance with applicable laws and regulations;
- (2) The Committee shall review the following issues with the senior management and the internal and external auditors:
  1. the appropriateness of the Group's accounting and financial reports, including compliance with the accounting standards, complex or unusual transactions, accounting treatment of significant risks and uncertainties and areas requiring highly subjective judgment;
  2. the areas that involve important judgments;
  3. the going concern assumptions and any qualification;
  4. material adjustments arising from audit;
  5. significant accounting and financial reporting issues raised by internal and external auditors;
  6. new developments of or significant changes to the Group's existing accounting policies and recommendations to the Board on any significant new policies or significant changes to existing policies;
  7. compliance with the Listing Rules and legal requirements in relation to financial reporting;
  8. other reports submitted by the Board in relation to the duties and responsibilities of the Committee.
- (3) The Committee shall review with the senior management and the internal and external auditors and approve or, if necessary, recommend for approval by the Board:
  1. the audited annual financial reports together with the report of the external auditors;
  2. the interim financial reports;
  3. the quarterly results, if applicable;
  4. all the financial information contained in important disclosed documents, including prospectus, shareholder circular and other documents concerning placement of shares.
- (4) In reviewing financial reports, the Committee shall pay attention to any change in accounting policies and practices;

- (5) If a dividend proposal submitted by the senior management deviates from the dividend policy approved by the Board, the Committee shall review such dividend proposal and make recommendations to the Board;
- (6) The Committee shall review with the senior management and the internal auditors the measures and procedures for control of the regulatory documents submitted by the Group to the regulatory authorities.

**Article 10 Risk Management and Internal Control Systems**

- (1) The Committee shall review and evaluate whether the senior management has established appropriate risk management and internal control systems. This function is part of the Committee's risk management and control duties to establish proper and effective risk management and internal control systems. It is the responsibility of the senior management to confirm to the Committee as to the effectiveness of the risk management and internal control systems. The Committee shall discuss with the senior management in relation to the risk management and internal control systems and ensure that the management has performed its duties to establish effective risk management and internal control systems;
- (2) The Committee shall review the internal audit programs of the Company and its subsidiaries, review such annual audit plans with the internal auditors and provide guidance to them so as to consider the adequacy of the accounting system, risk management and the level of internal control;
- (3) With the help of risk management personnel and internal auditors, the Committee shall at least annually conduct a review of the soundness and effectiveness of the risk management and internal control hierarchy, mechanism and system of the Group, and advice and make recommendations on the improvement of the risk management and internal control systems of the Group. Such review shall cover all important monitoring areas, including the functions of financial monitoring, operational monitoring and compliance monitoring, and monitoring of the implementation of the Group's risk management system. The Committee shall discuss with the management the risk management and internal control systems and ensure that the management has performed its duties to establish such effective systems. This discussion shall include the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions and their staff training programs and budget. The Committee shall discuss with the management about the scope and quality of the ongoing monitoring of risks and the internal control system as well as the internal audit function and work of other providers of assurance. The Committee shall take the initiative to or, upon delegation by the Board, study the important investigation results of the relevant risk management and internal control matters as well as the management's response to the investigation results. The Committee shall oversee the management in the design, execution and supervision of the risk management and internal control systems, and urge the management to confirm whether the abovementioned systems are effective.

The Committee shall particularly focus on the following in conducting such annual review:

1. the changes since the last annual review in the nature and severity of significant risks, and the Group's ability to respond to the changes in its internal business and the external environment;
2. the scope and quality of the senior management's ongoing monitoring of risks (including but not limited to compliance risks on financial reporting, accounting and external reporting) and the internal control system and, if applicable, the internal audit function and work of other providers of assurance;
3. the effectiveness of the internal control system established by the senior management to monitor transactions entered into or to be entered into between any member of the Group and any connected person or related party within the meaning of the Hong Kong Listing Rules;
4. the effectiveness of the Group's procedures in relation to financial reporting and compliance with the Hong Kong Listing Rules;
5. the work of the internal risk management and audit functions and other supervision departments, including the reports (both regular and exceptional) issued by the risk management personnel and internal auditors, management recommendations submitted by the external auditors as well as the senior management's responses, and examination reports issued by regulatory authorities and the senior management's responses. The Committee shall also meet with the senior management, the risk management personnel, the internal auditors and the external auditors to discuss findings from its work and the resolution, or otherwise, any difficulties encountered;
6. the extent and frequency of communication of monitoring results to the Committee which enables it to build up a cumulative assessment of the state of control in the Group and the effectiveness of financial reporting risk management;
7. the incidence of significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition;
8. regarding risk management matters that may have a significant impact on the Group's financial position and reputation, ensuring that the matters have been properly addressed, and ensuring that any significant impact of these issues is reflected in the financial reports; and
9. the adequacy of resources, qualifications and experience of staff of the Group's accounting, risk management, internal audit and financial reporting functions and their staff training programs and budget.

- (7) The Committee shall review arrangements under which employees of the Group may raise concerns about possible improprieties in financial reporting, internal control or other matters privately. The Committee shall ensure that proper arrangements are in place for the fair and independent investigations of such matters and for appropriate follow-up action;
- (8) The Committee shall study important investigation results of the relevant risk management and internal control matters (whether the investigation is conducted by the Audit Committee as delegated by the Board or on its own initiative) and the senior management's response to these results.

#### **Article 11** Internal Audit

(1) The Committee shall:

1. regularly assess and monitor the effectiveness of the internal audit function, review and approve the duties and responsibilities and structure of internal audit with reference to the opinions of the senior management and the person in charge of internal audit, and ensure that the internal audit function has an appropriate standing and no unreasonable restrictions are imposed on its function;
2. be informed of the results of assessment on the person in charge of internal audit;
3. approve the results of assessment on other senior members of the internal audit team as advised by the person in charge of internal audit and report the same to the Audit Committee;
4. review, monitor, examine and approve the audit programs, approaches, annual audit plans and budgets for internal audit and ensure the independence of internal audit and sufficient resources available to conduct relevant work; and
5. ensure adequate communication and coordination between the internal audit department and external auditors for their work.

(2) The Committee shall urge relevant functional departments to disclose, in the Corporate Governance Report, how the Company has complied with code provisions relating to risk management and internal control during the period under review. In particular, they shall disclose:

1. the procedures used by the Company to identify, evaluate and manage significant risks;
2. the main features of the Company's risk management and internal control;
3. the procedures used by the Company to review the effectiveness of risk management and internal control systems;
4. the procedures and internal control measures of the Company for handling and dissemination of inside information;

5. the frequency of the Board for reviewing risk management and internal control systems and whether the systems are sufficient and effective in the view of the Company.

The Committee shall also urge the Board to disclose, in the Corporate Governance Report, whether it has obtained the confirmation from the management on effectiveness of the Company's risk management and internal control systems and urge the Board to disclose details of other important concerns.

The Committee shall:

1. review relevant reports submitted by internal auditors and the senior management's responses to any identified weaknesses on internal control; and
  2. receive and review the reports of internal audit on summarizing the senior management's responses to matters for which no measures have been taken and the implementation of relevant matters.
- (3) The Committee shall individually meet the person in charge of internal audit in the absence of senior management or executive directors to discuss any issue needing to be separately discussed in its or internal auditors' view.

## **Article 12** External Audit

- (1) The Committee is responsible for monitoring external auditors, reviewing and monitoring the independence and objectivity of external auditors, as well as the effectiveness and compliance of audit methods to ensure that external auditors are ultimately accountable to the Board, the Committee and shareholders.
- (2) The Committee shall make recommendations to the Board on the appointment, reappointment and change of external auditors so as to submit the same to the general meeting for approval, and approve the remuneration and terms of service of external auditors. In the event of resignation of any external auditors, the Committee shall look into the details of the resignation and clarify with the outgoing external auditors whether there is any issue relating to the engagement or reason for resignation needing to bring to the attention of the Board and shareholders.
- (3) The Committee shall discuss with external auditors the nature and scope of the audit before commencing the audit work by the Committee and the external auditors, review and monitor the effectiveness of the audit procedures in accordance with applicable standards, and ensure that the audit plan is risk-based and covers all relevant measurable activities during the entire accounting period, and coordinate the internal audit and external audit work. The Committee shall also review with external auditors (and senior management) all matters to be reported to the Committee in relation to general accounting standards.

- (4) The Committee shall review and monitor the completeness, accuracy and fairness of interim and annual financial statements before submission to the Board with particular regard to changes in accounting policies and practices, areas that involve major judgments, adequacy of information disclosure, consistency between the financial statements and prior disclosures, any significant audit adjustments, the going concern assumption and any qualification statement, all applicable laws and accounting standards and compliance of financial reporting as specified in the Hong Kong Listing Rules and other laws;
- (5) The Committee shall review the audit results with external auditors, internal auditors and senior management, and report the findings to the Board. The specific scope of review shall include but is not limited to:
1. the external auditors' evaluation on the Group's internal accounting systems and relevant opinions;
  2. the extent to which the management has cooperated with external auditors, including any major problem arising from the audit and any restriction imposed by the senior management or disagreement with the senior management on significant accounting issues;
  3. existing or potential problems related to accounting and/or audit matters and any accounting errors, and any change in accounting procedures and/or internal control system identified or arising during the audit;
  4. matters specified in the explanatory statements submitted by external auditors to senior management in respect of audit, the senior management's responses and follow-up of any identified weakness;
  5. the appropriateness and standardization of principal accounting policies and treatments of the Group and adoption of new accounting policies and treatments; and
  6. other financial treatments that have been discussed with the senior management, specific use of existing treatments and treatments suggested by external auditors, as well as other material issues communicated with the senior management.

For the purposes of paragraph (5) of this article above, the Committee shall coordinate the settlement of any disagreement and dispute between the senior management and external auditors arising from financial reporting in order to ensure the smooth preparation or issue of audit reports or implementation of related work. In the event of any material weakness identified, the Committee shall make recommendations to the Board on the actions to be taken.

- (6) The Committee shall review the scope of audit and any other services provided by the external auditors and approve their fees and terms of service. As part of the review, the Committee shall:
1. advise the external auditors to conduct any supplementary audit as deemed appropriate by the Committee;

2. review with the external auditors recent or expected developments of accounting principles or reporting practices that may affect the Company or the scope of audit; and
  3. discuss major expected audit issues, if any.
- (7) The Committee shall formulate and implement the policy on non-audit services provided by the external auditors. The Committee shall make report and recommendations to the Board on any matter that require actions or improvement. For non-audit services, the Committee shall consider:
1. whether there are preventive measures or whether it is necessary to take or advice the Board to take appropriate measures to ensure that external auditors will not pose threat to the objectivity and independence of audit work when they provide such non-audit services; and
  2. the nature of non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the external auditors.
- (8) The Committee shall annually review all non-audit works performed by the external auditors for the year to ensure that such non-audit works do not involve any impermissible non-audit work and do not impair the independence of the external auditors;
- (9) The Committee shall approve the policy on hiring employees or former employees of the external auditors and monitor the adoption of such policy to assess whether it has affected or is likely to affect the judgment or independence of the external auditors in audit;
- (10) The Committee shall meet with the external auditors at least twice a year to discuss matters regarding the audit fees, any matters arising from audit and any other matters the external auditors wish to discuss.

### **Article 13** Others

- (1) The Committee shall preliminarily consider the connected transactions requiring approval from the general meeting or the Board, and shall submit the same to the Board for approval;
- (2) The Committee shall consider and approve connected transactions or accept filing of connected transactions within the scope of authorization by the Board.
- (3) Subsequent to the year end, the Committee shall submit to the Board a special report of the Company on connected transactions and implementation of the connected transaction management system during the year which shall fully and accurately report the overall positions, extent of risks, composition and distribution of the connected transactions which the Company has conducted during the year;
- (4) The Committee shall review the soundness of the arrangements under which the Company permits the employees to report or complain about any irregularities of the Company in financial reporting, internal control or other areas, and ensure that the Company has appropriate arrangements for fair and independent investigation and follow-up on relevant matters;

- (5) The Committee shall work with the Supervisory Committee in its supervisory audit;
- (6) The Committee may study other subjects determined by the Board, keep the Board informed of any event which may have a material effect on the Group's financial position or business development, and make appropriate recommendations to the Board;
- (7) The Committee shall handle other matters as stipulated by laws, regulations, regulatory documents and the Articles of Association, as required by the securities regulatory authorities of the place where the shares of the Company are listed and as authorized by the Board (including studying other subjects determined by the Board);
- (8) The Committee shall communicate with other committees on a regular basis and as appropriate to consider responsibilities and duties of the Board in controlling all risks, in order to ensure that all material risk management issues and irregularities have been thoroughly discussed and followed up, and ensure that appropriate coordination has been made for all reviews on internal control systems conducted by the Committee through audit.
- (9) The Committee shall upload these terms of reference to the websites of the Stock Exchange and the Company to explain its duties and powers delegated by the Board.

#### **CHAPTER 4 POWER**

**Article 14** The Committee has the right to seek adequate administrative support from the senior management of the Group for performing its duties and has separate and independent access to the senior management of the Group.

**Article 15** The senior management are expected to support the work of the Committee in the best possible faith to ensure that they provide the Committee with all the information necessary and appropriate in respect of the Group's operation, business, status and other areas for the Committee to fulfil its responsibilities on a timely basis. The Committee has the right to request any member of the senior management and any employee of the Group to promptly respond to the queries raised by any member of the Committee as comprehensive as possible. Information provided to the Committee shall be accurate and complete, and be in the form and of the quality enabling the Committee to make an informed decision.

**Article 16** The Committee has the right to act on its own or at the delegation by the Board to investigate major internal control issues, review the Group's operating, financial and accounting policies and practices, study relevant findings and responses of the senior management, and report the results of the investigation and review to the Board and make relevant recommendations.

**Article 17** Members of the Committee may, upon reasonable request, seek independent professional advice for their decision-making in appropriate circumstances, at the Group's expense. In the event of seeking advice from an external consultant, such consultant shall be appointed by the chairman of the Committee and its opinions shall be directly submitted to the chairman of the Committee. The consultant shall be independent of the senior management.

## CHAPTER 5 RULES OF PROCEDURES

**Article 18** The Committee shall convene meetings at least twice a year before the regular meetings of the Board. Notices shall be given to all members no less than 3 business days prior to the meeting, and notices of the meeting shall contain the date, place, reasons and topics for discussion of the meeting, but the notice period may be waived with the written consent from more than half of the members.

**Article 19** Extraordinary meetings may be convened upon proposal by the chairman or more than half of all members of the Committee. Notices of extraordinary meetings shall be given to all members no less than 3 business days prior to the meeting, but the notice period may be waived with the written consent from more than half of the members.

**Article 20** Materials and notice of the meetings of the Committee shall be issued simultaneously. All members shall fully read meeting materials prior to the meetings.

**Article 21** the meetings of the Committee shall be, in principle, convened in an onsite way with the presence of more than half of all members. The meetings may also be convened by telecommunication means or circulation of written resolutions provided that all members are allowed to fully express their opinions. Telecommunication means refer to the use of telephone, videos and other means to participate in the meeting; circulation of written resolutions refers to the way of making decision on proposals through separate or circulated service and consideration. The quorum of the meetings of the Committee shall be two, one of whom must be an independent non-executive director.

**Article 22** The chairman of the Committee shall preside over meetings of the Committee. In the event that the chairman of the Committee is unable to attend, another member (who shall be an independent non-executive director) may be designated to preside over the meetings. If such delegation is not made, more than half of the members being present shall select a member (who shall be an independent non-executive director) to preside over the meetings.

**Article 23** Members of the Committee shall attend the meetings in person. In the event that a member is unable to attend, he may authorise another member in writing to attend and vote on his/her behalf. The proxy who attends and votes at the meeting shall submit the power of attorney to the chairman of the meeting before it begins. The power of attorney shall set out the name of the principal, name of the proxy, matters delegated, voting instructions on matters proposed at the meeting (for or against), scope and validity period of authorization, and shall be signed or sealed by the principal. The proxy shall exercise the right within the scope of authorization. The principal who authorizes other members to attend the meeting on his/her behalf shall be solely liable to any decision made by the proxy within his/her scope of authorization.

**Article 24** Votes at the meetings of the Committee shall be conducted by a show of hands, by verbal voting by open ballots, and every member shall have one vote. Resolutions made at the meetings shall not take effect unless they are passed by more than half of all members (including members unable to be present). Members of the Committee shall give express votes, either for or against, but may not abstain from voting.

**Article 25** Representatives of the auditors shall usually attend the meetings of the Committee to provide assistance. At the request of the Committee, it may invite persons other than the members of the Committee such as directors, supervisors, relevant members of senior management and heads of relevant departments to be in attendance at part or whole of any meeting of the Committee. A prior approval from the chairman of the Committee shall be obtained for the list of such persons in attendance at the meeting.

**Article 26** Any member who is interested in any resolution considered at the meetings of the Committee and his/her associates shall abstain from attending the meetings.

**Article 27** Full minutes of the meeting of the Committee shall be kept. Minutes of the meetings of the Committee shall provide sufficient and detailed record of the matters considered and decisions reached by the Audit Committee and auditors, including all concerns raised or dissenting views expressed by the directors. Drafts and final versions of the minutes of the meetings shall be sent to all members of the Committee for their comments and records, respectively, within a reasonable time after the meetings. Members attending the meetings shall sign on the final version of the minutes of the meetings of the Committee.

**Article 28** Members of the Committee and other persons attending the meetings shall keep confidential all matters discussed at the meetings. Unauthorized disclosure of relevant information is prohibited.

## **CHAPTER 6 REPORTING PROCEDURES**

**Article 29** All minutes of the meetings prepared by the Committee in accordance with the Article 27 regarding the rules of procedures shall be kept by the secretary to the Audit Committee and be available for inspection at any reasonable time on reasonable notice by any director.

**Article 30** The Committee shall regularly report to the Board on matters set out in these terms of reference, including the work of the Committee, and shall notify the Supervisory Committee of the same.

## **CHAPTER 7 ANNUAL GENERAL MEETING**

**Article 31** The chairman of the Committee shall attend annual general meetings of the Company and be prepared to answer any shareholder's questions in relation to the duties of the Audit Committee.

**Article 32** If the chairman of the Committee is unable to attend an annual general meeting of the Company, he/she shall arrange for another member of the Committee to attend in his/her place. Such member shall be prepared to answer any shareholder's questions in relation to the work of the Committee at the annual general meeting.

## CHAPTER 8 EFFECTIVE DATE AND AMENDMENTS

**Article 33** These terms of reference were considered and approved by the board of directors of the Company and shall become effective on the date of the listing of overseas listed foreign shares (H shares) issued by the Company on The Stock Exchange of Hong Kong Limited. Where it is necessary to amend these terms of reference in light of changes in situation, the amendments shall be proposed by the Committee and submitted to the Board for consideration and approval.

**Article 34** Matters not covered by these terms of reference shall be handled in accordance with the requirements of relevant state laws and regulations, the Hong Kong Listing Rules and the Articles of Association of the Company; in case there is any inconsistency between these terms of reference and any future relevant state laws and regulations, the Hong Kong Listing Rules or the Articles of Association of the Company amended by lawful procedures, the relevant state laws and regulations, the Hong Kong Listing Rules and the Articles of Association of the Company shall prevail and these terms of reference shall be amended immediately subject to the approval of the Board.

**Article 35** These terms of reference shall be interpreted by the Board.