

# **Shanghai Electric Group Company Limited**

## **Rules of Procedure for the Audit Committee**

(Approved at the 92nd meeting of the fifth session of the Board  
of the Company on 29th April 2024)

The audit committee of the Company (the “Audit Committee”) is mainly responsible for reviewing and overseeing the risk management, financial reporting procedures and internal controls system of the Group, reporting the results of such review and recommendations for improvement, if any, to the board of directors (the “Board”). The Audit Committee is also responsible for reviewing the interim, quarterly and full year financial statements, as well as the appointment of and remuneration for auditing firm (auditors).

### **1. Membership**

- 1.1 Members of the Audit Committee shall be appointed by the Board.
- 1.2 The Audit Committee must consist of a minimum of three members, all of whom must be non-executive directors.
- 1.3 The majority of the members of the Audit Committee must be independent non-executive directors (“INEDs”), at least one of whom must be an accounting professional and possess appropriate professional qualifications, or possess appropriate accounting or related financial management expertise as stipulated in the listing rules of the stock exchange where the Company’s shares are listed.
- 1.4 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one year commencing on the date of his ceasing:
  - (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm, whichever is the later.

### **2. Chairman**

- 2.1 The chairman of the Audit Committee shall be appointed by the Board and must be an accounting professional among the INEDs.

### **3. Secretary**

- 3.1 The company secretary shall be the secretary of the Audit Committee.
- 3.2 In the absence of the secretary of the Audit Committee, the members present at the meeting of the Audit Committee shall elect another person as secretary.

#### **4. Quorum**

- 4.1 The quorum for meetings of the Audit Committee shall be any two members.
- 4.2 A duly convened meeting of the Audit Committee at which a quorum is present at the time when the meeting proceeds to business and continues to be present until the conclusion of the meeting, shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit Committee.

#### **5. Frequency of meetings**

- 5.1 The Audit Committee shall hold at least four regular meetings in a year. Extraordinary meetings may be convened upon the proposal of two or more members or when the chairman deems it necessary.
- 5.2 The external auditors may request a meeting if they consider that one is necessary.

#### **6. Attendance at meetings**

- 6.1 A meeting of the Audit Committee must be attended by more than two-thirds of the members.
- 6.2 Independent directors shall attend the meetings of the Audit Committee in person. If they are unable to attend in person for any reason, they shall review the meeting materials in advance, form clear opinions, and entrust other independent directors in writing to attend on their behalf.
- 6.3 The finance director (chief financial officer), the chief auditor, and a representative of the external auditing firm (auditors) shall normally attend meetings along with the members of the Audit Committee. However, at least once a year the Audit Committee shall meet with the external auditing firm (auditors) and the chief auditor without executive Board members present.
- 6.4 The secretary of the Audit Committee (or his/her delegate) shall attend all meetings of the Audit Committee to take minutes.

## **7. Notice of meetings**

- 7.1 A meeting of the Audit Committee should be convened by the chairman of the Audit Committee. The meetings of Audit committee shall be held on site in principle. On the premise of ensuring that all participating members of the Board can fully communicate and express their opinions, the meetings can be held by video, telephone or other means in accordance with procedures when necessary.
- 7.2 Unless otherwise agreed by all the members of the Audit Committee, the Company shall, in principle, provide relevant materials and information to all members of the Audit Committee no later than three days before the meeting of the Audit Committee.
- 7.3 The agenda and notice of meetings shall be prepared by the chairman of the Audit Committee.

## **8. Minutes of meetings**

- 8.1 The secretary of the Audit Committee (or his/her delegate) in attendance at the meetings of the Audit Committee shall minute in sufficient detail the matters considered and decisions reached at such meetings. The minutes shall also include any concerns raised by any member of the Audit Committee and/or dissenting views expressed.
- 8.2 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The relevant member of the Audit Committee shall not be counted towards the quorum and he must abstain from voting on any resolution of the Audit Committee in which he or any of his associates has a material interest, unless the exceptions set out in note 1 to Appendix 3 of the Listing Rules apply.
- 8.3 Draft and final versions of minutes of Audit Committee meetings shall be sent to all Audit Committee members for their comment and records respectively, in both cases within a reasonable time, 7 days at least, after the meeting. Once the minutes are signed, the secretary shall circulate the minutes and reports of the Audit Committee to all members of the Board.
- 8.4 Minutes of the Audit Committee shall be kept by the secretary of the Audit Committee and shall be available for inspection by any member of the Audit Committee or the Board at any reasonable time on reasonable notice.

## **9. Annual general meeting**

9.1 The chairman of the Audit Committee or his delegate shall attend the annual general meeting of the Company and be prepared to answer questions at the annual general meeting on the Audit Committee's activities and their responsibilities.

## **10. Other regulations governing the meetings and proceedings of the Audit Committee**

10.1 Unless otherwise specified above, the provisions contained in the Company's Articles of Association for regulating meetings and proceedings of directors shall apply to the meetings and proceedings of the Audit Committee.

## **11. Duties**

11.1 The Audit Committee is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving its strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Audit Committee should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and should review the work report provided by the management on the effectiveness of these systems. The Audit Committee should oversee the Company's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the Company's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls. The Audit Committee's annual review should, in particular, consider:

- (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
- (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
- (c) the extent and frequency of communication of monitoring results to the Audit Committee;
- (d) significant control failings or weaknesses that have been identified during the period. Also, 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 Company's financial performance or condition; and
- (e) the effectiveness of the Company's processes for financial reporting and Listing Rule compliance.

## 11.2 Relationship with the Company's external auditing firm (auditors)

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditing firm (auditors), and to approve the remuneration and terms of engagement of the external auditing firm (auditors), and to consider any questions of resignation or dismissal of that auditing firm (auditors);
- (b) to review and monitor the external auditing firm (auditors)'s independence and objectivity and the effectiveness of the audit process in accordance with applicable accounting standard;
- (c) to discuss with the external auditing firm (auditors) before the audit commences, the nature and scope of the audit and reporting obligations;
- (d) to ensure co-ordination where more than one audit firm is involved;
- (e) to develop and implement policy on the engagement of an external auditing firm (auditors) to supply non-audit services. For this purpose, external auditing firm (auditors) shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee shall report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

## 11.3 Review of financial information of the Company

- (a) to monitor integrity of financial statements of the Company and the completeness of Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, interim report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee shall focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;

- (v) compliance with accounting standards;
  - (vi) compliance with relevant financial reporting and disclosure requirements of the Listing Rules and the applicable laws of the places in which the Company's shares are listed;
- (b) in regard to 11.3(a) above:
- (i) members of the Audit Committee must liaise with the Company's Board and senior management. The Audit Committee should have meetings with the auditing firm (auditors) at least twice a year; and
  - (ii) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditing firm (auditors).

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

- (a) to review the rationality, reasonableness, effectiveness and performance of the Company's and its major subsidiaries' financial controls, risk management and internal control systems;
- (b) to discuss with the management the systems of risk management and internal control and ensure that management has discharged its duty to have effective systems in place, and to make suggestions for any action against persons who have violated respective rules and regulations. This discussion with management should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions;
- (c) to consider any findings of major investigations of risk management and internal control matters and management's response to these findings as delegated by the Board or on its own initiative;
- (d) where an internal audit function exists, to ensure co-ordination between the internal auditors and external auditing firm (auditors), and 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; to form opinion on the diligence and performance assessment of internal auditors;
- (e) to review the group's financial and accounting policies and practices;

- (f) to review the external auditing firm (auditors)'s management letter, any material queries raised by the auditing firm (auditors) to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditing firm (auditors)'s management letter;
- (h) to report to the Board on the matters set out herein and, in particular, the matters required to be performed by the Audit Committee under this rules;
- (i) to consider other topics, as defined by the Board;
- (j) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;
- (k) to act as the key representative body for overseeing the Company's relation with the external auditing firm (auditors); and
- (l) to discuss problems and reservations arising from the quarterly, interim and annual audits and any matters the external auditing firm (auditors) may wish to discuss (in the absence of the management where necessary).

#### 11.5 Independence of external auditing firm (auditors)

- (a) to consider all relationships between the Company and the external auditing firm (auditors) (including the provision of non-audit services);
- (b) to seek from the external auditing firm (auditors), on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding rotation of auditing firm (auditors)'s partners and staff;
- (c) to meet with the auditing firm (auditors), at least once annually, in the absence of any management team members, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditing firm (auditors) may wish to raise;
- (d) to agree with the Board the Company's policies relating to the hiring of employees or former employees of the external auditing firm (auditors) and monitor the application of such policies. The Audit Committee shall then be in a position to consider whether in the light of this there has been any impairment or appearance of impairment, of the auditing firm (auditors)'s judgment or independence in respect of the audit;

- (e) to ensure that the provision by an external auditing firm (auditors) of non-audit services does not impair the external auditing firm (auditors)'s independence or objectivity. When assessing the external auditing firm (auditors)'s independence or objectivity in relation to the non-audit services to be provided by the external auditors, the Audit Committee may wish to consider:
  - (i) whether the skills and experience of the external auditing firm (auditors) make it a suitable supplier of the non-audit services;
  - (ii) whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditing firm (auditors);
  - (iii) the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the external auditing firm (auditors); and the criteria which govern the compensation of the individuals performing the audit.

11.6 The following matters shall be submitted to the Board for review after being approved by more than half of all members of the Audit Committee:

- (a) disclosure of financial information in financial and accounting reports and periodic reports, and evaluation reports on internal control;
- (b) appointment or dismissal of accounting firms engaged in audit business for the Company;
- (c) appointment or dismissal of the financial controller of the company;
- (d) changes in accounting policies, accounting estimates or corrections of material accounting errors made for reasons other than changes in accounting standards;
- (e) other matters as stipulated in laws, administrative regulations, regulations of the securities regulatory authorities in the place where the Company's shares are listed, business rules of the stock exchange and the Company's Articles of Association.



## **12. Reporting responsibilities**

- 12.1 Where the Board disagrees with the Audit Committee's views on the selection, appointment, resignation or dismissal of the external auditing firm (auditors), the Audit Committee shall prepare a statement, for inclusion in the Company's Corporate Governance Report, explaining its recommendations. The Board shall include in the same report the reason(s) why the Board has taken a different view.
- 12.2 The Audit Committee shall compile a report to shareholders on its role and work performed by it during the year in discharging its responsibilities in its review of the quarterly, interim and annual results and system of internal control, and its other duties set out in this rules, for inclusion in the Company's Corporate Governance Report.
- 12.3 The Audit Committee shall report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

## **13. Others**

- 13.1 The Audit Committee shall be provided with sufficient resources to discharge its duties.
- 13.2 All members of the Audit Committee shall have access to the advice and services of the secretary of the Audit Committee with a view to ensuring that procedures of the Audit Committee and all applicable rules and regulations are followed.
- 13.3 In the event that the Audit Committee or any member of the Audit Committee requires access to outside independent professional advice in connection with its/his duties, a request may be made to the Board. All such requests shall be processed in accordance with the Company's pre-defined procedures for seeking independent professional advice at the Company's expense.
- 13.4 Every member of the Audit Committee shall ensure that he can give sufficient time and attention to his duties as a member of the Audit Committee. He shall give the Company the benefit of his skills and expertise through regular attendance and active participation.

#### **14. Authority**

14.1 The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it reasonably requires from any employee and all employees are directed to co-operate with any reasonable request made by the Audit Committee.

14.2 The Audit Committee and each of its members shall have separate and independent access to the Company's senior management.

#### **15. Publication of the rules of procedure of the Audit Committee**

15.1 The rules of procedure of the Audit Committee will be made available on request and should be published on the website of the Company as well as those of the stock exchanges on which the Company's shares are listed.

15.2 The rules of procedure of the Audit Committee shall take effect from the date of review and approval by the Board, and the same shall apply when revised.

15.3 The Board of the Company is responsible for interpreting the rules of procedure of the Audit Committee.