雲南水務

雲南水務投資股份有限公司
Yunnan Water Investment Co., Limited*

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

(Stock code: 6839)

RULES OF PROCEDURE OF THE AUDIT COMMITTEE

The rules are formulated in accordance with the Company Law of the People's Republic of China, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Listing Rules") and applicable regulatory provisions, Articles of Association of Yunnan Water Investment Co., Limited (hereinafter referred to as the "Articles of Association") and the Rules of Procedure of Board Meetings of Yunnan Water Investment Co., Limited.

Composition

1. The Audit Committee is established by the board of directors of the Company (the "**Board**") on 8 May 2015 according to the Articles of Association and the establishment would be effective from the date on which the H shares of the Company are listed on the Stock Exchange.

2. The Company does not have a board of supervisors or supervisors and establishes the Audit Committee which comprises directors under the Board and exercises the functions of supervisors and the board of supervisors as required by Company Law.

3. The Audit Committee, as a special committee of the Board, is responsible for reporting to the Board and shall be accountable to the Board. In fulfilling its responsibilities, the Audit Committee shall abide by the applicable laws, regulations, the Articles of Association and the rules herein. By virtue of legislative requirements, the Audit Committee shall be subject to supervision by the shareholder's meeting.

* *For identification purposes only*

Members

4. Members of the Audit Committee must be non-executive directors of the Company to be appointed by the Board and the Committee shall consist of not less than three members. The majority of the members must be independent non-executive directors of the Company (the "**Independent Directors**").

5. Members of the Audit Committee shall be nominated by the chairperson and appointed by the Board after election.

6. Members of the Audit Committee shall meet the following requirements:

   a. Have skills and experience applicable to the businesses of the Company;

   b. Have certain financial expertise;

   c. At least one of whom shall have the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.

7. A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of one year from 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 later.

8. The chairperson of the Audit Committee must be elected by more than half of the members of the Audit Committee and appointed by the Board.

9. The election and replacement of the members of the Audit Committee shall be conducted by the Board. The term of office is the same as that of Directors and may be reappointed. If any committee member ceases to be a director or an Independent Director of the Company during his/her term of office, or resigns before the expiration of his/her term of office, his/her membership in the Audit Committee shall be deemed to lapse automatically. In order to make the constitution of members of the Audit Committee satisfy the requirements of the rules, the Board may timely fill such vacancy/vacancies to make up the number of the members in accordance with the foregoing provisions of the rules. The Board can change the composition of members of the Audit Committee at its discretion from time to time.

If a member automatically loses his/her membership or/and resigns, resulting in a lower number of members than the number stipulated in the Company Law or the Articles of Association, the original member shall still perform his/her duties in accordance with the provisions of laws, administrative regulations, the Company Law, the Rules of Procedure of Board Meetings and the rules until the vacancy is filled.

10. The permanent body of the Audit Committee is the Office of the Audit Committee, which is in the department responsible for the internal audit function of the Company. The Audit Committee may appoint the Company Secretary of the Company or any person with suitable qualifications and experience to serve as the Secretary of the Committee. The Secretary of the Audit Committee shall be the Director of the Office of the Audit Committee.

Attendance at meetings

11. Except the Audit Committee meeting as set out below, members of the Audit Committee shall attend the designated meeting with the external auditing firm of the Company or other appropriate person upon their invitation from time to time so as to address the concerns raised by such external auditing firm or such other appropriate person in relation to audit of the Company.

12. The rights and duties of the Audit Committee members are as follows:

    a. Attend meetings of the Audit Committee timely and express opinions on matters discussed at the meeting and exercise voting right;

    b. Propose topics discussed at the meeting of the Audit Committee;

    c. Attend or observe relevant company meetings, conduct research, and obtain relevant information such as necessary reports, documents, and materials for performing their duties;

    d. Fully understand the duties of the Audit Committee and their duties as the members of the Audit Committee, familiarize themselves with operation and management status, business activities and development status of the Company related to their duties to ensure their abilities of performing their duties;

    e. Fully guarantee their time and energy for performing their duties;

    f. Other authority required by these Rules of Procedure.

Number and Procedure of Meetings

13. Audit Committee meetings shall be held only if more than two-thirds of the members are present, and at least two of the attending members must be Independent Directors. Meetings shall be chaired by the Chairperson of the Audit Committee. If the Chairperson is unable to preside, they may designate another Audit Committee member to do so. If an Audit Committee member cannot attend a meeting for any reason, they may authorize another member in writing to exercise their powers on their behalf.

14. Audit Committee meetings shall be planned at the beginning of each financial year of the Company, and no fewer than two meetings shall be held each year. The Audit Committee shall meet with the external auditors at least twice a year to discuss audit work and other related matters.

15. The Audit Committee shall also meet with the external auditors at least once a year without the presence of the Company's management (except those invited by the Audit Committee) to discuss audit fees or other matters of concern.

16. The Audit Committee may convene additional meetings as necessary to fulfill its duties. An extraordinary meeting shall be convened within ten days under any of the following circumstances:

    a. When the Board deems it necessary;

    b. When the Chairperson of the Audit Committee deems it necessary;

    c. When a resolution is passed by the shareholders' meeting or the Board meeting that violates laws, regulations, rules, regulatory requirements, the Articles of Association, shareholders' resolutions of the Company, or other relevant provisions;

    d. When the Company has experienced or is experiencing significant loss of assets, resulting in damage to shareholders' equity;

    e. When the Company's directors, general manager, or other senior management violate laws, regulations, or the Articles of Association, seriously harming the Company's interests;

    f. When the Company, directors, members of specialized committees, or senior management are sued by shareholders or penalized by securities regulators;

g. When requested by securities regulators;

h. Other circumstances as required by laws, regulations, the Articles of Association, the Rules of Procedures of Board Meetings, or these Rules of Procedure.

17. Audit Committee members may attend meetings in person or via telephone or video conferencing.

18. Meeting notices shall be delivered by the Director of the Audit Committee Office. Delivery methods may include personal delivery, fax, or email. Notices are deemed served once sent via these methods. Written notices shall include at least the following:

    a. Time, location, and duration of the meeting;

    b. Matters to be considered (agenda items);

    c. Convener and chairperson of the meeting, and the proposer of any extraordinary meeting along with their written proposal;

    d. Materials necessary for the Audit Committee's decision-making;

    e. Requirement for members to attend in person;

    f. Contact person and contact details;

    g. Date of notice issuance.

    Oral notices shall at minimum include items a, b, and g above, along with an explanation of the urgency necessitating the extraordinary meeting of the Audit Committee.

19. Staff designated by the Chairperson of the Audit Committee shall record minutes of on-site meetings. Minutes shall include:

    a. Meeting session, time, location, and format;

    b. Issuance of the meeting notice;

    c. Convener and chairperson;

    d. Attendance;

e. Explanation of procedures and conduct of the meeting;

f. Proposals considered, key points and main opinions of each member, and voting intentions;

g. Voting method and results for each proposal (specifying numbers of votes for, against, and abstentions);

h. Other matters deemed necessary by attending members.

For meetings held via electronic communication, the designated staff shall prepare minutes in accordance with the above requirements.

20. Resolutions of the Audit Committee shall be adopted by a majority of its members. Voting shall be one member, one vote. Minutes must be prepared for all meetings, and attending members shall sign the minutes. Members with a conflict of interest regarding any discussed matter shall recuse themselves.

21. Written resolutions signed by all Audit Committee members shall have the same effect as resolutions passed at formally convened meetings.

22. Except as otherwise provided in the rules, the procedures for Audit Committee meetings shall be governed by the relevant provisions of the Articles of Association (as amended from time to time).

Annual General Meetings

23. The chairperson of the Audit Committee shall attend the Company's annual general meeting and be prepared to respond to any shareholder's questions on the Audit Committee's activities.

24. If the chairperson of the Audit Committee is unable to attend an annual general meeting of the Company, he/she shall arrange for another member of the Audit Committee, or failing this, his/her duly appointed delegate, to attend in his/her place. Such person shall be prepared to respond to any shareholder questions on the Audit Committee's activities.

Authority

25. The Audit Committee has unrestricted access to the chairperson of the Board, the Chief Financial Officer (or any officer(s) assuming the relevant functions but having a different designation), the external auditors and the internal auditors in order to discharge its duties.

26. All members of the Audit Committee shall have access to the advice and services of the Office of the Audit Committee and its Director with a view to ensuring that procedures of the Audit Committee and all applicable rules and regulations are followed.

27. The Audit Committee shall be provided with sufficient resources to perform its duties and may seek independent professional advice in appropriate circumstances at the Company's expenses to perform its duties.

28. The Audit Committee is authorised by the Board:

    a. to investigate any activity within its rules of procedure;

    b. to inspect all accounts, books and records of the Group; and

    c. to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Audit Committee.

Duties

29. Primary duties of the Audit Committee are to review and supervise the financial management and financial internal control systems of the Company and its subsidiaries (the "**Group**") to oversee the audit process; and to supervise the financial affairs, directors and senior management personnel of the Company in performing their duties according to law, exercise their functions and powers according to law, safeguard the legitimate rights and interests of the Company and shareholders, and to perform other duties and responsibilities as assigned by the Board, and such duties should include:

Relationship with the external auditors

a. to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal, and supervise the practice of the external auditors. Where the Company engages, reappoints or replaces its external auditing firm, the Audit Committee shall form a review opinion and recommend it to the Board as a prelude for the latter's consideration and review; and to develop and finalize the policies of the Company on external auditors. The Audit Committee shall report to the Board and make recommendations on any matters requiring follow-up action or improvement;

b. to assess and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit process commences;

c. to develop and implement policy on the engagement of an external auditors to supply non-audit services. For this purpose, external 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 should 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;

Review of the Group's financial information

d. to monitor integrity of the Company's financial statements, 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 reviewing these reports before submission 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. the going concern assumptions and any qualifications;

v. compliance with accounting standards; and

vi. compliance with the Listing Rules and other legal requirements in relation to financial reporting;

e. Regarding (d) stated above, the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the external auditors; and 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 qualified accountant, staff responsible for the accounting and financial reporting function, general counsel or external auditors;

f. The Audit Committee shall be responsible for reviewing the Company's financial information and its disclosure, supervising and evaluating internal and external audit work, as well as internal control. The following matters shall be submitted to the Board for consideration upon approval by more than half of the members of the Audit Committee:

i. disclosure of financial information contained in financial accounting reports and periodic reports, and internal control evaluation report;

ii. appointment or dismissal of the accounting firm responsible for the Company's audit work;

iii. appointment or dismissal of the officer in charge of financial affairs of the Company;

iv. changes in accounting policies and accounting estimates or correction of material accounting errors for reasons other than changes in accounting standards;

v. other matters as prescribed by laws, administrative regulations, the CSRC regulations, the regulatory rules at the places where the Company's shares are listed and the Articles of Association.

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

g. to review the Company's financial controls, and except for the matters expressly addressed by the Risk Control and Compliance Committee of the Board, or by the Board itself, the Audit Committee shall review once per annum the effectiveness of the Group's financial risk management and internal financial control systems. The review should cover all material controls, including financial, operational and compliance controls;

h. The annual review of the risk management and internal control systems of the Company should, in particular, include the following matters:

   i. 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;

   ii. the scope and quality of management's ongoing monitoring of risks and the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;

   iii. the extent and frequency of communication of monitoring results to the Board (or Board committee(s)) which enables it to assess control of the Company and the effectiveness of risk management;

   iv. 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

   v. the effectiveness of the Company's procedures for financial reporting and Listing Rules compliance.

i. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to establish effective systems. The discussion 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;

j. to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

k. ensure co-ordination between the internal audit department and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

l. to review the Group's financial and accounting policies and practices;

m. to review the external auditors' management letter, any material queries raised by the external auditors to management about the accounting records, financial accounts or systems of control and management's response;

n. to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;

o. to review the Company's statement on risk management and internal control systems included in the Corporate Governance Report prior to endorsement by the Board;

p. to discuss problems and qualified opinion, if any, arising from the half-year and annual audit, and any matters the external auditors may wish to discuss (in the absence of management where necessary);

q. to review arrangements that the employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters for appropriate follow-up action;

r. to act as the key representative of the Company and the external auditors and be responsible for overseeing their relations;

s. to report to the Board on the matters in these Rules of Procedure;

t. to consider other topics, as defined or assigned by the Board from time to time, including but not limited to the following:

    i. to review the internal controls and risk management systems of the Company on an on-going basis, including the internal controls on bank account management and the monitoring of bank transactions in order to detect and prevent improper bank activities and transactions;

    ii. to review the report on bank account activities, material bank transactions and all incoming wire transfers on a quarterly basis to detect irregularities;

iii. to report any irregularities (if any) to the Board immediately; and

iv. to review findings of the Company's internal audit department from time to time.

Corporate Regulation Functions

u. to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated the laws, administrative regulations, the Articles of Association or the resolutions of the shareholders' meetings;

v. to demand rectification from a director or senior management when the acts of such persons are detrimental to the interests of the Company; to initiate litigations against such director or senior management in accordance with the provisions of laws and the Articles of Association;

w. to propose the convening of extraordinary general meetings and to summon and preside over shareholders' meetings when the Board fails to perform the duty of summoning and presiding over shareholders' meetings under the Company Law;

x. to propose the convening of extraordinary board meetings;

y. to submit proposals to the shareholders' meeting;

z. to review the policies and practices of the Company on corporate governance and make recommendations to the Board;

aa. to review and monitor the training and continuous professional development of directors and senior management;

ab. to review and monitor the policies and practices of the Company on compliance with legal and regulatory requirements;

ac. to develop, review and monitor the code of conduct applicable to employees and directors;

ad. to review the Company's compliance with the Listing Rules and the Code on Corporate Governance Practices (as amended from time to time) and disclosure in the Corporate Governance Report; and

ae. to set the procedures and internal controls for the handling and dissemination of inside information.

Reporting Procedures

30. The Audit Committee should 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.

31. Full minutes and written resolutions should be kept by the Office of the Audit Committee. Draft and final versions of minutes of the meetings should be sent by the Director of the Audit Committee Office to all members of the Audit Committee for their comments and records, within a reasonable time after the meeting. Written resolutions should be promptly sent to all members of the Audit Committee for their records after the written resolutions are passed.

32. At the next meeting of the Board following a meeting of the Audit Committee, the chairperson of the Audit Committee shall report to the Board on the works and recommendations of the Audit Committee since the last Board meeting (if any). At least once annually, the Audit Committee should present a report in writing to the Board which addresses the work of the Audit Committee during the year.

Supplementary Provisions

33. In the rules, the meaning of "above" includes the underlying number, "more than" does not include the underlying number, and "day(s)" refers to business day(s). Unless otherwise stated, technical terms used herein shall have the same meanings as they appear in the Articles of Association.

34. The rules shall come into effect from the date when it is passed by the Board. The rules shall be interpreted by the Board.

35. Any changes to these Rules of Procedure shall be effective after they have been approved by the Board.