

# Huaxin Cement Co., Ltd.\*

(a joint stock company incorporated in \_\_\_\_\_ of China with limited liability)  
(Stock code: 6655)

## Rules of Procedures for the Audit Committee to the Board of Directors

### Chapter One: General Provisions

**Article 1** Pursuant to the *Company Law of the \_\_\_\_\_ Republic of China, Code of Corporate Governance for Listed Companies, Independent Director Systems of Listed Companies, Shanghai Stock Exchange Listed Company No.1 Self-Discipline Guideline-Standard Operation, Articles of Association of Huaxin Cement Co., Ltd., Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, Rules of Procedures for the Board of Directors of Huaxin Cement Co., Ltd.* and other relevant provisions, Huaxin Cement Co., Ltd. (the **Company**) has established the Audit Committee (the **Committee**) \_\_\_\_\_ Board of Directors (the **Board**) and formulated these Rules of Procedures, so as to strengthen the decision-making roles of the Board, ensure effective superintendence of the Board over the \_\_\_\_\_ financial accounting, internal audit, external audit and internal controls and improve the governance structure of the Company.

**Article 2** The Committee is a special organization under the Board of Directors to oversee and regulate the accounting policy, internal audit, external audit, financial standing, major investments and transactions of the Co[~~of~~]*TETBTBT1 0 0 1 285.41 28*

**Article 4** In performing the duties, the Committee may seek independent professional advice for company related matters, at reasonable expense.

The expense budget of the Committee for the aforementioned purposes shall be submitted to the chairman of the Company for approval.

**Article 5** The Committee shall conduct regular review and assessment annually over the duty performance of the Committee and the implementation of these Rules of Procedures.

**Article 6** The Secretary to the Board or the delegate appointed by the Committee shall act as the Secretary to the Committee, and be responsible, in conjunction with the Chairman of the Committee, for drawing up and deciding the meeting agenda (supported by explanatory documentation and papers)

**Article 7** The Board Office of the Company shall be responsible for the liaison, conference organization, document circulation, file archiving and other routines of the Committee.

## **Chapter Two: Composition**

**Article 8** The Committee shall comprise five Directors approved by the Board. Members shall all be non-executive directors, with non-executive Independent Directors taking up the majority and at least one non-executive Independent Director being an accounting professional or equipping with professional qualification or financial expertise.

**Article 9** The Committee shall have one Chairman (namely Convener). The Chairman shall be a non-executive Independent Director with professional financial background and rich accounting or financial management experience.

**Article 10** The term of office of the Committee shall be in congruence with that of the Board, and its members may be re-elected and re-appointed upon expiry of the current term of office. If any member no longer acts as a director of the Company during his/her term of office, he/she shall automatically cease to hold the Committee membership, and the vacancy shall be filled by someone appointed in accordance with the abovementioned provisions of Articles 8 and 9.

**Article 11** The Board shall conduct a regular review on the independence and duty performance of members of the Committee, replace who is no longer appropriate to be the member when necessary. The former partner of current audit firm to conduct auditing to the Company shall not take the member position within two years since the following dates (subject to the latter date) (a) the day when the former partner cease to be the partner of the audit firm or (b) the former partner no longer holds any financial benefits of the Company.

**Article 12** The Chairman of the Committee shall exercise power as follows:

- (1) Determining the agenda of the Committee meetings;
- (2) Presiding over the Committee meetings and taking reasonable measures to ensure proper functioning of the Committee, including the proper conduct of meetings and an appropriate level of discussion;
- (3) Making decisions regarding whether some pre-identified issues shall be put to a vote or deferred, depending on whether the discussion over such issues by the Committee has led to a consensus or disputes;
- (4) Taking reasonable measures to report resolutions made on one or more matters and any disputes, etc. to the Board;
- (5) Reviewing any written resolutions, minutes of meetings and action plans to be circulated for perusal and approval by the Committee; and
- (6) Exercising powers on behalf of the Committee upon due authorization by the Committee.

### **Chapter Three: Terms of Reference**

**Article 13** The main terms of reference of the Committee are as follows:

- (1) Proposing the appointment or replacement of external auditors;
- (2) Supervising and assessing the work performance of external auditors and internal control;
- (3) Supervising and assessing the internal audit of the Company, and supervising the internal audit system of the Company and its implementation;
- (4) Being in charge of the communications between internal and external auditors;
- (5) Reviewing the financial information of the Company and its disclosure;
- (6) Assessing the effectiveness of the internal control;
- (7) Carrying out controls and management over related transactions of the Company;
- (8) Reviewing interim and annual financial statements on behalf of the Board and issuing opinions thereon to the Board;
- (9) Proposing the appointment or dismissal of the head of finance of the Company;

- (10) Other matters authorized by the laws, regulations, listing rules of the place where the company shares are listed and the Board.

The following matters shall be approved by over half of all members of the Audit Committee before being submitted to the Board of Directors for review:

- (1) Disclosure of financial information in financial accounting reports and periodic reports, as well as internal control assessment reports;
- (2) Appointment or removal of the accounting firm responsible for the audit of the business of the Company;
- (3) Appointment or removal of the head of finance of the Company;
- (4) Making changes to accounting policies, accounting estimates, or correcting significant accounting errors for reasons other than changes in the accounting standards;
- (5) Other matters stipulated by laws, regulations, rules of the China Securities Regulatory Commission, and the Articles of Association of the Company.

**Article 14** The 0o-10(o)(e)JTJ20(,)9( )-19(a)-15()-156(r)-16(s)-101-6(66m[T]-18(h)-21 0 0 1 470.5 462.19 T

party informed of all the related information, such agency will be deemed as a part of the local or international business of the external auditor under reasonable circumstances) to ensure that the provision of such services does not impair the external independence or objectiveness.

Prior to the auditing, discussing and communicating with the external auditor on the nature of the audit, audit scope, audit plans, audit methods and related reporting responsibility, and discussing and communicating on any material matters identified in the audit process.

- (5) Supervising and assessing if the external auditor has fulfilled its duties with due diligence.
- (6) Putting forward suggestions to the Board on any issue that has been implemented or improved.

The Committee shall hold at least one separate meeting on a yearly basis with the external auditor in the absence of the Management of the Company. The secretary to the Board may attend the meeting as a nonvoting delegate.

**Article 15** The role of the Committee in reviewing the financial statements and issuing opinions thereon on behalf of and upon due authorization of the Board mainly involves:

- (1) Reviewing and supervising the completeness of financial statements, annual report, accounts, half year report and quarterly report of the Company, reviewing material opinions of financial reporting; and issuing opinions on their truthfulness, completeness and accuracy; and forming opinions for the audit reports concluded from the annual financial statements of the Company and submitting the same to the Board for approval.

Prior to submitting the above to the Board for approval, the Committee shall conduct special review on the following:

- (a) Focusing on major accounting and audit issues in the financial statements, including major adjustments due to audit, changes to accounting policies, estimations and practice and estimate changes, issues involving major accounting judgments, going-concern assumptions and matters resulting in non-standard unqualified audit reports.
- (b) Paying special attention to the possibilities of fraud, corrupt practices, material misstatement related to financial reporting.
- (c) Whether the accounting standard is complied with; and

- (d) Whether the laws, regulations, listing rules of the place where the company shares are listed related to financial reporting are complied with;
- (2) Supervising the rectification of the financial reporting issues; and
- (3) To perform the above duties,
  - (a) Members of the Committee shall liaise with the Board and senior management. The Committee shall have meetings with the auditors for at least twice a year;
  - (b) The Committee shall consider any material or unusual matters reflected or needs to be reflected in the financial statements and accounts and give due weight to matters put forward by staff or supervisor or auditor who is in charge of accounting and financial reporting.
  - (c) The Chief Financial Officer of the Company shall be responsible for the coordination and communication between the Committee and the certified accountant(s), and put in place all necessary conditions for the Committee to perform the abovementioned responsibilities and duties.

**Article 16** The role of the Committee in supervising the financial reporting, risk management and internal control of the Company on behalf of and upon due authorization of the Board mainly involves:

- (1) Considering and reviewing with the external auditor the adequacy of the internal controls in the context of the external audit work undertaken, any related significant findings and recommendations of the external auditor
- (2) Review the finance control of the Company and risk management and internal control system;
- (3) Discuss with the senior management on the risk management and internal control system to ensure the management has fulfilled its duty in setting up an effective system. The discussion shall include the resources in accounting and financial reporting functions, whether the seniority and experience of staff is adequate, and whether the training courses and budget of staff are enough;
- (4) Considering and reviewing the following issues with the Top Management, the Head of Internal Control System and Head of the Internal Audit Department:

of the reporting and replying procedure for major control deficiencies, including the effectiveness and results of top-

management investigation and further treatment, and the existence of any unsettled matters as reported by the internal or external audit agencies;

adequacy of the process for reporting and responding to significant control weaknesses including the adequacy and results of Top investigation and follow up and whether there are unresolved issues as reported by the external auditor and Internal Audit Department;

difficulties encountered in the course of reviews, including any ~~restrictions on the scope~~ of the work or access to required information; and

instances of significant internal and external fraudulent activity identified and responses thereto.

- (5) Reviewing the self-assessment reports on internal control;
- (6) Review the finance, accounting policy and practice of the Company;
- (7) Reviewing the audit reports on internal control issued by the external auditor and communicating with the external auditor about any identified issues and improvement measures;
- (8) Review the audit statement letter issued by the external auditor to the management, any material questions raised by the auditor to the management regarding the accounting records, financial accounts or risk
- (9) To ensure that the board of directors responds in a timely manner to the matters raised in the audit statement letter issued by the external auditor to the management;
- (10) Assessing the internal control assessment

the company to conduct fair and independent investigations and take appropriate action in such matters;

**Article 17** The duty in supervising the internal control systems and their implementation on behalf of and upon due authorization of the Board mainly involves:

- (1) Ensure the coordination between the internal and external audit, and the internal audit function is adequately resourced and duly placed;
- (2) Monitoring and reviewing the performance of the Head of Internal Audit and the effectiveness of the internal audit function in forming an independent assessment as to whether risks have been properly identified, adequate controls are in place to manage these and the controls are working effectively.
- (3) Replacing, appointing, removing and reappointing the Head of the Internal Audit Department of the Company, subsequent to proper discussions with the CEO.
- (4) Reviewing and making recommendations to adjust the remuneration of the Head of Internal Audit Department.
- (5) Reviewing the annual internal audit plans of the Company.
- (6) Supervising the implementation of the internal audit plans from the following aspects:

of audit progress from the annual plans and schedule;

Changes required in the planned scope of the annual plan; and

Structure, resourcing and the use of external consultants.

- (7) Reviewing the internal audit reports, assessing the internal audit results and supervising the rectification of any material issues.
- (8) Guiding the effective operation of the internal audit department.

The Committee shall arrange at least one non-public meeting each year with the Head of the Internal Audit Department, discussing matters deemed necessary for non-public discussion by the Committee or Head of the Internal Audit Department.

During the non-public meeting, the Head of the Internal Audit Department shall report to the Committee on any actual or suspected major violations, including any breaches of the laws.

#### **Chapter Four: Rules of Procedure**

**Article 18** The Committee holds regular and provisional meetings. All members shall be notified seven days prior to the convening of a meeting.

**Article 19** The Committee shall hold meetings at least once every quarter. For the Committee to fulfill its responsibilities, provisional meetings shall be convoked in circumstances deemed necessary by the Chairman or when proposed by more than two members of the Committee.

**Article 20** Two-thirds of the members must be present for the Committee meeting to be held. A meeting of the Committee shall be convened only with the presence of no less than two thirds of its members. In general, the members shall attend a meeting in person or authorize another member to attend on his/her behalf. In circumstances

meeting shall sign on the minutes. The Secretary to the Committee shall be responsible for the formation, circulation, signature and archiving of meeting minutes.

**Article 27** Committee shall answer for the Board. Any opinions made and resolutions passed at a meeting of the Committee shall be reported in written form to the Board of the Company.

**Article 28** The convening procedure, voting and proposals passed in the meeting shall abide by pertinent laws, regulations, listing rules of the listing venue, Articles of Association and these Rules of Procedure.

**Article 29** All participants at a meeting shall be obliged to keep confidential all matters discussed in such a meeting and shall not disclose any relevant information without due authorization.

#### **Chapter Five: Supplementary Provisions**

**Article 30** These Rules of Procedures shall be put in force on the date of deliberation and adoption by the Board of Directors of the Company. From the effective date of these Rules of Procedures, current effective Rules of Procedures become invalid automatically.

**Article 31** Any matters that are not covered in these Rules of Procedures, or any conflicts with any provisions of the laws, regulations, listing rules of listing venue and Articles of Association issued or revised later, shall be implemented according to pertinent laws, regulations, listing rules of listing venue, current or revised Articles of Association of the Company and these Rules of Procedure shall be amended immediately and approved by the Board.

**Article 32** The right to interpret these Rules of Procedures shall vest in the Board of the Company.

*English translation of this document is for reference only, if there are discrepancies between the Chinese version, the Chinese version shall prevail.*