

# Huaxin Cement Co., Ltd.*
# 華新水泥股份有限公司

*(a joint stock company incorporated in the People's Republic 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 People's 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**") under the Board of Directors (the "**Board**

**Article 4** In performing the duties, the Committee may seek independent professional advice for company related matters, at Huaxin's 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) Supervising and assessing the work performance of external auditors;

(2) Guiding the internal audit of the Company, and supervising the internal audit system of the Company and its implementation;

(3) Conducting communications between internal and external auditors;

(4) Reviewing the financial information of the Company and its disclosure;

(5) Supervising the finance reporting system, risk management and internal control of the Company;

(6) Carrying out controls and management over related/connected transactions of the Company;

(7) Reviewing quarterly, biannual and annual financial statements on behalf of the Board and issuing opinions thereon to the Board;

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

**Article 14** The role of the Committee in supervising and assessing the work performance of the external auditors on behalf of and upon due authorization of the Board mainly involves:

(1) Making suggestions to the Board on the appointment, re-appointment and removal of the external auditor, approve the remuneration and terms of appointment and settle any issues related to the resignation of or dismiss the external auditors;

(2) Reviewing, considering and advising the Boards on:

- The external auditor's annual plan;
- the fees proposed by the external auditor, including whether an effective, comprehensive and complete audit can be conducted for the fee;
- Annual review of the qualification, expertise, resources and performance of the external auditor.

(3) Supervising and assessing the effectiveness, objectiveness, professionalism and independence of the external auditor and audit procedures in accordance with applicable standards;

(4) Approving and monitoring the Group's policy in relation to the provision of non-audit services by the external auditor (including any agency under the same control, ownership or management with the auditor, or a third party that's 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 auditor's 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 Company's 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 Company's 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 Group's internal controls in the context of the external audit work undertaken, any related significant findings and recommendations of the external auditor and management's response thereto;

(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:

- The adequacy 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;

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

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

- Any 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 control system, and the management's response;

(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;

(6) Supervising the implementation of the internal audit plans from the following aspects:

- Deviation of audit progress from the annual plans and schedule;
- Changes required in the planned scope of the annual plan; and

**Article 21** Meetings shall be presided over by the Chairman of the Committee. In case the Chairman cannot attend a meeting out of special reasons, the members present at the meeting shall elect a Non-executive Independent Director to chair the meeting.

**Article 22** Directors, supervisors, senior management of the Company, external auditor, internal audit staff may be invited to a Committee meeting without voting rights when necessary. Only members of the Committee are entitled to vote in the meeting.

Non-members of the Committee may be asked by the Chairman to withdraw from all or any part of a meeting.

**Article 23** Each member shall have one vote on proposals or issues to be reviewed by the Committee. The Chairman shall have just one vote like all other members.

**Article 24** Where the Chairman puts a proposal or issue to a vote, the proposal or issue shall become a valid resolution only when it is passed by a simple majority.

**Article 25** Where a member of the Committee is the interested person/party of any matter being discussed by a meeting, such member shall withdraw from the voting process. In the event that the Committee is unable to form a valid opinion on a certain matter due to the withdrawal of any of its members, such matter shall be reviewed directly by the Board of the Company.

**Article 26** Any meetings of the Committee shall have records of the meetings signed by all members present at such meetings. The draft and final draft of the minutes shall be sent to all members within a reasonable time. The draft is for members to voice opinions and the final draft is for recording. Members attending the 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 when domestically listed foreign shares are listed on Hongkong Stock Exchange. 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.*