

# **CIG SHANGHAI CO., LTD.**

## **TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD**

### **CHAPTER I GENERAL PROVISIONS**

**Article 1** In order to strengthen the decision-making function of the Board of CIG SHANGHAI CO., LTD. (the “Company”), achieve auditing in advance and professional auditing, ensure effective supervision over the management by the Board and improve the corporate governance structure, the Company has established the Audit Committee (the “Committee”) of the Board with these terms of reference in compliance with the Company Law of the People’s Republic of China 《中華人民共和國公司法》), the Code of Corporate Governance for Listed Companies 《上市公司治理準則》), the Rules Governing the Listing of Securities on the Shanghai Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange Listing Rules”), the Articles of Association of CIG SHANGHAI CO., LTD. (the “Articles of Association”), the Rules of Procedure for the Board of Directors of CIG SHANGHAI CO., LTD., and other relevant provisions.

**Article 2** The Audit Committee under the Board is a special working organ established by the Board in accordance with the resolutions of the shareholders’ general meeting, it is accountable to the Board and exercises the functions and powers of a supervisory committee stipulated by the Company Law. The main functions of the Committee are assisting the Board to independently examine the financial position of the Company and the implementation status and effectiveness of the internal control system, it is responsible for exercising compliance control over the Company’s operational management and investment business, conducting review and supervision on the results of the Company’s internal audit work, as well as independent communication with internal auditors and external auditors, supervision and review of their work.

### **CHAPTER II COMPOSITION**

**Article 3** The Audit Committee shall comprise three non-executive Directors, who do not hold senior management positions in the Company, of which independent non-executive Directors (hereinafter referred to as the “independent Directors”) shall constitute the majority, and accounting professionals among the independent Directors shall serve as the convener. The members of the Committee shall have professional knowledge and business experience in finance or law commensurate with their responsibilities. At least one member of the Committee shall have appropriate professional qualifications or accounting or related financial management expertise, in line with the qualification requirements for finance professionals of audit committee as required by the stock exchange at the place where the Company’s shares are listed.

**Article 4** The members of the Audit Committee shall be nominated by the chairman of the Board or more than one-half of the independent Directors or one-third of all Directors, and shall be elected by the Board.

The former partner of the Company’s current external audit firm shall not serve as a member of the Committee for two years from the following dates (whichever is later):

(1) the date on which such former partner ceased to be a partner of the accounting firm; or

(2) The date on which such former partner ceases to enjoy the financial interests in the accounting firm.

**Article 5** The Audit Committee shall have one chairman (convener), who shall be an independent Director who is also an accounting professional, responsible for leading the work of the Committee. The chairman shall be elected from among the members and shall be reported to the Board for the approval of appointment.

**Article 6** The members of Audit Committee shall serve for the same term as the Board. The members are eligible for re-election upon expiry of the term. Unless under the circumstances that a member shall not hold office as stipulated by laws, regulations, regulatory documents, the securities regulatory rules of the place where the Company's shares are listed or the Articles of Association arise, he/she shall not be dismissed without a reason. During the period, if any member ceases to serve as a Director of the Company or a member who should have the status of an independent Director no longer possesses the independence or qualification as required by laws, regulations, regulatory documents, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association, he/she will automatically lose his/her membership, and the Committee will replenish the number of members in accordance with the provisions of Articles 3 to 5 above.

**Article 7** The Audit Committee shall establish an audit department to be responsible for, among other tasks, daily operation liaison and organizing meetings.

### **CHAPTER III DUTIES AND AUTHORITIES**

**Article 8** The main duties and authorities of the Audit Committee include:

(1) Supervising and evaluating the work of external audit firm;

1. To make proposals to the Board on the engagement, renewal and replacement of the external audit firm, to make recommendations to the Board on the remuneration and terms of engagement of the external audit firm, and to handle any issues relating to the resignation or dismissal of the external audit firm;

2. To review and monitor whether the external audit institution is independent and objective and whether the audit procedures are effective according to applicable standards; the Committee shall discuss the nature, scope and relevant reporting responsibilities with the audit firm before the commencement of audit work. In order to investigate the independence of the external audit firm, the Committee shall complete the following work: to study the relationship between the Company and the audit firm (including non-audit services); to obtain materials from the audit firm every year and understand the policies and procedures adopted by the audit firm to maintain its independence and oversee the implementation of the relevant rules, including the requirements on the change of partners and staff of the audit firm; to meet with the external auditors at least once a year in the absence of management to discuss matters relating to audit fees, any matters arising from audit work and other matters raised by the audit firm;

3. To formulate and implement policies on engaging external audit firms to provide non-audit services. For the purposes of this provision, "external audit firm" includes any entity under the common control, ownership or management of the firm responsible for the audit, or a third party with reasonable knowledge of all the relevant information, which under reasonable circumstances the Company will determine to be part of the domestic or international operations of the firm responsible for the audit. The Committee shall report and make recommendations to the Board on any matters which it deems necessary for action or improvement.

(2) Guiding internal audit work, supervising the Company's internal audit system and its implementation, and supervising the rectification of major problems;

(3) Review the financial reports of the Company;

To review and monitor the truthfulness, completeness and accuracy of the financial statements and the annual reports and accounts, interim reports and quarterly reports of the Company, and to review any significant financial reporting opinions contained in the statements and reports, paying particular attention to whether there are any probability of fraud, corruption and material misstatement relating to the financial statements and reports. In this regard, the Committee, in submitting such statements and reports to the Board, shall particularly scrutinize the following matters:

1. Any changes in accounting policies and practices;

2. Where important judgments are involved;

3. Significant adjustments arising from the audit;

4. Assumptions of going concern and any qualified opinions;

5. Whether the accounting standards are complied with;

6. Whether the Company has complied with the securities regulatory rules and legal requirements of other places where the shares of the Company are listed on financial reporting.

Members of the Committee shall liaise with the Board and senior management of the Company. The Committee shall hold meetings with the Company's external auditors at least twice a year; the Committee shall consider any matters significant or unusual that are reflected or may be required to be reflected in such reports and accounts, and due consideration shall be given to any matters raised by the Company's accounting and financial reporting staff, compliance department or external auditors.

(4) Assessing the effectiveness of internal controls, reviewing and supervising the effective operation of the Company's financial reporting, internal control systems and risk management system;

1. To review the financial control, internal control systems and risk management system of the Company;

2. Discuss the risk management and internal control systems with the management to ensure that the management has performed its duties to establish effective systems, the content of discussion should include whether the resources of the Company for the accounting and financial reporting functions are adequate, the adequacy of staff qualifications and experience, and the adequacy and related budget for staff training programs;

3. To conduct research on the significant findings of risk management and internal control matters and the responses of the management to such findings on its own initiative or upon the appointment of the Board;

4. Supervising the effective implementation of internal controls and the self-assessment of internal controls, coordinating internal control audits, supervising the rectification of internal control deficiencies and other related matters; reviewing the financial and accounting policies and practices of the Company and its Group;

5. Reviewing the internal control audit reports issued by the external audit firm, communicating with the external audit firm about the problems discovered and the improvement methods. Reviewing, on its own initiative or as delegated by the Board, the Explanatory Letter on Auditing issued by the external auditor to the management, any material concerns raised by the external auditor to the management in respect of the accounting records, financial accounts, risk management or monitoring system and the response of the management, ensuring that the Board responds in a timely manner to the matters raised in the Explanatory Letter on Auditing issued by the external auditor to the management;

6. Ensuring the work of internal and external audit firms is coordinated; ensuring that the internal audit function has sufficient resources to operate within the Company and has an appropriate status; and review and monitor the effectiveness of the internal audit function;

7. Review the arrangements set by the Company that employees of the Company may raise concerns about possible improprieties in financial reporting, internal control or other aspects under the condition of confidentiality. The Committee should ensure that appropriate arrangements are in place for the Company to investigate fairly and independently and to take appropriate action in respect of these matters;

8. To handle any questions and qualified matters arising from the review of the interim report and the audit of the annual results, as well as any matters that the external auditors wish to discuss (in the absence of the management, if necessary).

(5) Responsible for the communication between the management, internal audit department and relevant departments and the external audit firm;

1. Coordinating the communication between the management and external auditors on major audit issues;

2. Coordinating the communication between the internal audit department and external audit firm and the cooperation with external audit work;

3. Acting as the main representative between the Company and the external auditors, responsible for monitoring the relationship between them.

(6) Reporting to the Board on the aforesaid matters and other matters as set out in code provision D.3.3 of Appendix C1 of the Hong Kong Stock Exchange Listing Rules (and the provisions as amended from time to time), and reporting to the Board on the decision or recommendation of the Committee unless such reporting is prohibited by laws or regulatory restrictions.

(7) Responsible for supervising and improving the principles, structures and systems of corporate governance, including:

1. To formulate and review corporate governance policies and practices, and make recommendations to the Board;

2. To review and supervise the training and continuous professional development of Directors and senior management;

3. To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. To develop, review and monitor the code of conduct and compliance manual (if any) for employees and Directors; and

5. To review the Company's compliance with the Corporate Governance Code in Appendix C1 of the Hong Kong Stock Exchange Listing Rules and its disclosure in the Corporate Governance Report.

(8) Supervising the performance of corporate duties by the Directors and senior management, and making proposal on the removal of any Director or senior management member who violates laws, administrative regulations, the Articles of Association or the resolutions of the shareholders' general meeting;

(9) When the Director or senior management member of the Company acts in a manner detrimental to the interests of the Company, request the Director or senior management member to rectify;

(10) To make proposal to convene an extraordinary general meeting, and to convene and preside over the shareholders' general meeting when the Board fails to perform its duties of convening and presiding over the shareholders' general meeting as stipulated in the Company Law;

(11) Suggest proposals for submission to the shareholders' general meeting;

(12) Initiating lawsuits against the Directors and senior management in accordance with the relevant provisions of the Company Law;

(13) Other matters as required by laws and regulations, the securities regulatory rules of the place where the Company's shares are listed, or as authorized by the Board of the Company.

**Article 9** The following matters shall be submitted to the Board for consideration upon the approval by more than half of all the members of the Audit Committee:

1. Disclosing the financial information and internal control assessment reports in the financial and accounting reports and periodic reports;

2. Engagement or dismissal of the accounting firm that undertakes the Company's auditing business;

3. Appointment or dismissal of the chief financial officer of the Company;

4. Changes in accounting policies, accounting estimates or correction of significant accounting errors for reasons other than changes in accounting standards;

5. Other matters stipulated by laws, administrative regulations, regulatory documents, securities regulatory rules of the place where the Company's shares are listed and the Articles of Association.

**Article 10** The main duties of the chairman of the Audit Committee include:

(1) to convene and preside over meetings of the Audit Committee;

(2) to supervise and inspect the work of the Audit Committee and the implementation of the resolutions of the Audit Committee;

(3) to sign the relevant documents of the Audit Committee;

(4) to report the work of the Audit Committee to the Board of the Company;

(5) to attend the Company's annual general meeting and answer questions raised by shareholders on matters relating to the duties of the Audit Committee. If the chairman of the Committee is unable to attend the annual general meeting, other members or a duly appointed representative should be present;

(6) to perform other duties required or delegated by the laws, regulations, normative documents of the State, the securities regulatory rules of the place where the Company's shares are listed, the Articles of Association, these Terms of Reference and the Board.

**Article 11** The rights and obligations of the members of the Audit Committee are as follows:

(1) to attend the meetings of the Audit Committee as scheduled, express opinions on matters discussed at the meetings and exercising voting rights;

(2) to propose topics to be discussed at the meetings of the Audit Committee;

(3) to attend or observe relevant meetings of the Company, conduct studies and researches, and obtain reports, documents, materials and other relevant information necessary for performing his/her duties;

(4) to fully understand the responsibilities of the Committee and the responsibilities as a member of the Committee, to be familiar with the Company's operation and management, business activities and development relevant to his/her responsibilities, and to ensure his/her ability to perform the responsibilities;

(5) to fully assure his/her time and energy at work for the performance of duties;

(6) Other functions and powers required to perform or delegated by the laws, regulations, normative documents of the State, the securities regulatory rules of the place where the Company's shares are listed, the Articles of Association, these Terms of Reference and the Board.

**Article 12** The Audit Committee shall be accountable to the Board and the proposals of the Committee shall be submitted to the Board for consideration and decision.

The Audit Committee shall publish its terms of reference on the HKEXnews website of The Stock Exchange of Hong Kong Limited and the Company's website to explain its role and the authorities delegated to it by the Board.

## CHAPTER IV DECISION-MAKING PROCEDURE

**Article 13** The Audit Department shall be responsible for preliminary preparations for the decision-making of the Audit Committee by providing materials on relevant aspects of the Company:

- (1) relevant financial reports of the Company;
- (2) work reports from the internal audit function and the external auditor;
- (3) contracts of the external auditor and the relevant work reports;
- (4) public disclosure of information made by the Company;
- (5) Audit report on the Company's material related-party transactions or connected transactions;
- (6) Report on internal control evaluation of the Company;
- (7) Other relevant matters.

**Article 14** The Audit Committee shall convene meetings to discuss reports submitted by the Audit Department, and shall submit relevant written materials for the meeting to the Board for its discussion:

- (1) appraisal of the work of the external auditor, and engagement and replacement of the external auditor;
- (2) report on whether the internal audit system of the Company has been effectively implemented, and whether the financial reports of the Company are complete and accurate;
- (3) whether information disclosed by the Company, including financial reports, is objective and true, and whether the Company's major related-party transactions or connected transactions are in compliance with relevant laws and regulations;
- (4) evaluation on the performance of financial department and audit department of the Company, including their persons-in-charge;
- (5) report on internal control evaluation of the Company;
- (6) other relevant matters.

## CHAPTER V RULES OF PROCEDURE

**Article 15** Meetings of the Audit Committee shall be classified as regular meetings and extraordinary meetings. Regular meetings shall be convened on a quarterly basis. Extraordinary meeting shall be convened upon proposal by two or more members or the chairman of the Audit Committee. A notice shall be given to all members at least three days before the meeting. Under special circumstances, the Audit Committee may convene a meeting at any time, but it must ensure that a notice shall be sent to all members in a timely and effective manner. The meeting shall be presided over by the chairman, who may entrust another member (being an independent non-executive director) to preside over the meeting if he/she is unable to attend.

**Article 16** A meeting of the Audit Committee shall be held only when more than two-thirds of the members are present. Each member shall have one vote and resolutions of the meeting must be passed by more than half of all the members. If a member is unable to attend a meeting, he/she may authorize another member in writing to attend on his/her behalf, and such presence at the meeting by proxy shall be deemed to be present in person.

**Article 17** Voting at a meeting of the Audit Committee shall be conducted by a show of hands or by poll. A meeting may be convened by way of voting by correspondence, and the resolution must be signed for confirmation after voting.

**Article 18** Any member of the Audit Committee who has interests in the matters deliberated in the meeting shall abstain from voting. Where the Audit Committee is unable to form an effective conclusion due to the abstention of such member, such matters shall be directly submitted to the Board of the Company.

**Article 19** The members of the Audit Department may attend the meetings of the Audit Committee. Directors and senior management of the Company may be invited to a meeting of the Audit Committee when necessary.

**Article 20** The Audit Committee may engage intermediaries to provide professional advice for its decision-making process when necessary, with the costs borne by the Company.

**Article 21** The procedures of convening a meeting, voting methods and resolutions passed at a meeting of the Audit Committee shall comply with relevant laws, regulations, the securities regulatory rules of the place where the shares of the Company are listed, the Articles of Association and these Terms of Reference.

**Article 22** Minutes shall be kept for the meetings of the Audit Committee, and all members present shall sign the minutes of meeting. The minutes of the meetings should record in detail the matters considered and the resolutions, including concerns or objections raised by the Directors. Full minutes of meetings of the Audit Committee shall be kept by a duly appointed secretary of the Committee (usually the company secretary) and the secretary to the Board. Draft and final versions of the minutes shall be circulated to all members of the Committee within a reasonable time after the meeting, with the draft version for comments by members and the final version for their record purpose. The Directors of the Company may inspect the minutes of meetings at a reasonable time after giving a reasonable notice.

**Article 23** The resolutions passed at the meetings of the Audit Committee and the voting results shall be submitted to the Board of the Company in writing.

**Article 24** All members attending the meeting are obliged to keep matters discussed in the meeting confidential and shall not disclose them without authorization; otherwise, they shall bear all legal liabilities arising therefrom.

## **CHAPTER VI SUPPLEMENTARY PROVISIONS**

**Article 25** These Terms of Reference shall be effective and implemented from the date of listing of H shares issued by the Company on the Stock Exchange of Hong Kong Limited following the passing of the resolution of the Board. Upon the implementation of these Terms of Reference, the Company's original Terms of Reference of the Audit Committee shall automatically become invalid.

**Article 26** Matters not covered by these Terms of Reference shall be implemented in accordance with the provisions of the relevant laws, regulations, regulatory documents of the State, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association. Where there is a conflict between these Terms of Reference and the laws, regulations and regulatory documents to be promulgated by the State in the future, the securities regulatory rules of the place where the Company's shares are listed or the Articles of Association as amended in accordance with lawful procedures, these Terms of Reference shall be implemented in accordance with the relevant laws, regulations and regulatory documents of the State, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association. These Terms of Reference shall be revised in a timely manner and submitted to the Board for consideration and approval.

**Article 27** The right to interpretation of these Terms of Reference shall be vested in the Board of the Company. The "Independent Director" referred to in these Terms of Reference shall have the same meaning as the "independent non-executive Director" under the Listing Rules of the Hong Kong Stock Exchange.