



河北建設集團股份有限公司

HEBEI CONSTRUCTION GROUP CORPORATION LIMITED

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

(stock code: 1727)

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE UNDER THE BOARD OF DIRECTORS OF HEBEI CONSTRUCTION GROUP CORPORATION LIMITED

Chapter 1 General Provisions

- Article 1 In order to establish and regulate the audit systems and procedures of Hebei Construction Group Corporation Limited (the “**Company**”), enhance the decision making process of the board of directors for its effective supervision of the management, and improve the corporate governance structure, the Audit Committee under the board of directors of Hebei Construction Group Corporation Limited (the “**Committee**”) is established with these terms of reference (these “**Terms**”) in accordance with the Company Law of the People’s Republic of China, the Standards of Corporate Governance for Listed Companies, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”), the Articles of Association of Hebei Construction Group Corporation Limited (the “**Articles**”), the Rules of Procedures for the Meetings of the Board of Directors of Hebei Construction Group Corporation Limited and other relevant laws, regulations and regulatory documents.
- Article 2 The Committee is a special committee under the board of directors and is mainly responsible for the communication between internal and external auditors, supervision and inspection of their works as well as the risk management and internal control of the Company. The Committee shall be accountable and report to the board of directors.
- Article 3 These Terms shall apply to the Committee and the persons and departments governed by these Terms.

Chapter 2 Composition and Executive Body of the Committee

- Article 4 The Committee shall consist of no less than three directors. All Committee members shall be non-executive directors, with a majority of whom being independent non-executive directors. All members shall possess professional financial or legal knowledge and commercial experience necessary for the performance of their duties. At least one of the members shall have the appropriate accounting qualification or relevant financial management expertise as required by the Hong Kong Listing Rules in respect of the qualifications of members of the audit committee. Partners of the external auditing firm engaged by the Company shall be prohibited from acting as a member of the Committee for a period of one year from the date of his/her resignation or ceasing to have any financial interest in the firm, whichever is the latter.

- Article 5 Members of the Committee shall be nominated by the chairman of the board of directors and appointed by the board of directors upon approval by more than half of the directors.
- Article 6 The Committee shall have a chairman who shall be an independent non-executive director. The chairman is responsible for the overall management of the Committee. The chairman shall be nominated by the chairman of the board of directors and appointed upon approval of the board of directors. The chairman of the Committee shall have appropriate accounting qualification or relevant financial and accounting expertise.
- Article 7 The term of office of the Committee shall be the same as that of the board of directors, and the term of office of a Committee member shall be the same as his/her term of office as a director. Committee members may be re-elected upon expiry of their terms of office. A member of the Committee shall, ipso facto, cease to be a member when he/she is no longer a director of the Company.
- Article 8 A Committee member may tender his/her resignation to the board of directors during his/her term of office by giving a written resignation to explain the reason for resignation and matters which need to be brought to the attention of the board of directors. If the number of members falls below the minimum number as provided herein, the resigning member shall continue to perform his/her duties until the alternate member of the board of directors takes office.
- Article 9 The Committee members are subject to changes during their terms of office if proposed by the chairman of the board of directors and approved by the board of directors.
- Article 10 If the number of the Committee members falls below the minimum number as provided herein, the board of directors shall make up the shortfall in accordance with these Terms.
- Article 11 With the coordination of the office of the board of directors, the audit department of the Company shall act as the executive body of the Committee to provide support and services and perform duties assigned by the Committee.

Chapter 3 Responsibilities of the Committee

- Article 12 The Committee, on behalf of the board of directors, shall conduct independent assessment and supervision on the compliance, legality and efficiency of the operation of the Company. The primary responsibilities of the Committee include:
- (1) to make proposals to the board of directors regarding the appointment, reappointment and dismissal of the external auditors, approve the remuneration and terms of engagement of the external auditors, and deal with all matters in relation to the resignation or dismissal of external auditors;

- (2) to review and monitor the independence and objectivity of external auditors and the effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the external auditors the nature, scope and method of the audit and reporting requirements before the audit commences;

For the purpose of independent inspection of external auditors, the Committee shall perform the followings: to examine the relation between the Company and the auditors (including non-audit services); to examine the materials provided by the auditors annually to understand the policies and procedures adopted by the auditors for maintaining their independence and implementation of such policies and procedures, including the rules for change of partners and executives of external auditors; to meet the external auditors at least once a year without the presence of the management of the Company for the discussion of audit fees and related matters, any matters in connection with audit works and other matters raised by the auditors;

- (3) to formulate and implement policies relating to the engagement of external auditors for non-audit services. For the purpose of this article, external auditors include any entity under common control, ownership or management with the auditors and any entity that a reasonable and informed third party would reasonably conclude to be part of the local or international operation of the auditors. The Committee should advise the board of directors on necessary actions or improvements and measures to be taken;
- (4) to examine the truthfulness, completeness and accuracy of the financial statements, annual reports and accounts, half-year reports and quarterly reports (if any) of the Company, and review important opinions regarding financial reporting in such statements and reports. Special attention should be paid to the possibilities of any frauds, mal-practices and major misstatements in relation to financial statements and reports. When reviewing the annual reports and accounts, half-year and quarterly reports of the Company before submission to the board of directors, the Committee should focus on the following matters:
 1. any changes in accounting policies and practices;
 2. major judgment;
 3. significant adjustments resulting from audit;
 4. the on-going concern assumption and qualified opinions;
 5. compliance with accounting standards;
 6. compliance with the Hong Kong Listing Rules and other legal requirements in relation to financial reporting.

- (5) for the purpose of clause (4) above,
 - 1. the Committee members shall discuss with the board of directors and the senior management. The Committee shall meet with the external auditor at least twice a year;
 - 2. the Committee shall consider any significant and unusual items that are, or may need to be, reflected in such reports and accounts, and shall give due consideration the matters raised by the staff responsible for accounting and financial reporting function, compliance officer or the external auditors;
- (6) to examine the financial control, internal control and risk management system of the Company;
- (7) to discuss with the management on risk management and internal control system to ensure that the management has performed its duty to maintain an effective risk management and internal control system. Considerations should be given to, among others, the adequacy of resources, qualifications, experience and training of staff and budgets pertaining to the accounting and financial reporting functions; to supervise the effectiveness and self-assessment of internal control; to coordinate internal control and audit as well as the improvement of internal control and other related matters;
- (8) to review major investigation findings on risk management and internal control and the management's response to these findings on its own initiative or as delegated by the board of directors;
- (9) to liaise with the internal audit department and the external auditors so as to coordinate their works, to ensure that the internal audit function is provided with sufficient resources and has appropriate standing in the Company, and to review the effectiveness of internal audit function;
- (10) to review the financial and accounting policies and practices of the Group;
- (11) to review the external auditor's audit letter to the management, major queries raised by the external auditors about accounting records, financial accounts or control systems and the response of the management;
- (12) to ensure that the board of directors will provide a timely response to the issues raised in the external auditor's audit letter to the management;
- (13) to review the following arrangements of the Company: the employees of the Company can, in confidence, raise concerns about possible irregularities in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for the Company to conduct fair and independent investigations and to take necessary actions accordingly;

- (14) to liaise with the external auditors acting as the key representative of the Company, and to monitor the relationship between the Company and the external auditors;
- (15) to review the risk management strategies and solutions for major risk management issues;
- (16) to verify the list of related parties of the Company; to conduct a general audit of all connected transactions and regular general examination of connected transactions, including a review of the decisions on connected transactions and their execution within ten days following the end of each half-year period, and a general review of all connected transactions of the Company within 30 days following the end of each half-year period.

- (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 the performance of his/her responsibilities;
- (4) to fully understand the responsibilities of the Committee as a whole and those as a member of the Committee, acquaint himself/herself with the operation, management, business activities and development of the Company to ensure his/her capacity for the performance of responsibilities;
- (5) to guarantee that he/she has devoted sufficient time and attention to fulfil his/her responsibilities;
- (6) to perform other duties as required by laws and regulations, and relevant regulatory requirements of the place where the Company is listed such as the Hong Kong Listing Rules, these Terms and by the board of directors.

Chapter 4 Meetings of the Committee

Article 15 Meetings of the Committee can be classified as regular meetings and extraordinary meetings.

Article 16 The Committee shall hold at least two regular meetings every year, and the notice of the meeting in writing shall be served to all members three days before such meeting.

Article 17 The Committee may convene extraordinary meetings when necessary. In any of the following circumstances, the chairman of the Committee shall issue a notice to convene a meeting within three days from the occurrence of the followings:

- (1) in circumstances as deemed necessary by the board of directors;
- (2) in circumstances as deemed necessary by the chairman of the Committee;
- (3) when proposed by two or more members of the Committee.

Article 18 The audit department shall issue the notice of meeting in writing to each of the Committee members and relevant persons being invited to attend the meeting three days prior to the date of the meeting (except in special circumstances where the requirement of a prior notice is exempted, provided that the chairman of the meeting shall provide explanation at the meeting). The notice of meeting shall contain information on the form, time, venue, duration and agenda of the meeting, time of issuance of the notice, name and contact information of the contact person of the meeting and other relevant information.

The audit, finance and legal departments and the office of the board of directors shall prepare and furnish the Committee with relevant materials related to the matters to be discussed, and liaise with the parties involved (including external professionals, specialists, scholars and intermediary agencies appointed by the Committee during a meeting).

Article 19 Upon receipt of the notice, all Committee members shall promptly provide confirmation and relevant replies (including but not limited to the confirmation of attendance, schedule and other matters) via a proper means.

Article 20 All members of the Committee shall attend the meeting in person. If a member is unable to attend the meeting in person, such member shall, by signing and submitting a letter of proxy, authorize another member of the Committee to attend and express opinion at the meeting on his/her behalf. Such letter of proxy shall expressly state the scope and term of the authorization. Each member may appoint only one other member as his/her proxy to exercise the voting right on his/her behalf. Where a member authorizes two or more other members to exercise the voting right on his/her behalf, such authorization shall be invalid. No member shall accept such authorization from two or more other members concurrently.

The member attending a meeting on behalf of another member shall exercise the rights within the scope of authorization. If a member does not attend a meeting in person or authorize another member to exercise the rights on his/her behalf, nor does he/she submit any opinion in writing prior to the meeting, he/she shall be deemed to have waived his/her rights.

A member who is unable to attend a meeting in person may also exercise his/her rights by submitting in writing his/her opinion with respect to any matter to be discussed, provided that such written opinion shall be submitted to the audit department before the meeting at the latest.

Article 21 If a member does not attend a meeting in person or authorize another member to attend such meeting on his/her behalf, nor does he/she submit any opinion in writing prior to the meeting on two consecutive occasions, or if such member fails to attend in person three-quarters of all meetings of the Committee held during any year, such member shall be deemed incapable of performing the duties of the Committee, and the board of directors may replace him/her in accordance with these Terms.

Article 22 The quorum of a Committee meeting shall be the presence of two-thirds of the Committee members. Meetings of the Committee shall be presided over by the chairman of the Committee, who may appoint another member to act on his/her behalf when he/she is unable to attend the meeting. If the chairman of the Committee neither performs his/her duties nor designates another member to act on his/her behalf, any member may report above situation to the board of directors, and the board of directors shall designate another member who is an independent non-executive director to fulfil the duties of the chairman.

Chapter 5 Procedures of Meetings

Article 23 Each member of the Committee shall have one vote. A resolution of the meeting shall be passed by a simple majority of the votes of all members. In the event that the meeting fails to reach a valid resolution due to the abstention of any member, the relevant matter shall be considered directly by the board of directors.

- Article 24 Meetings of the Committee shall be held in the form of on-site meetings in general, and voting shall be conducted by a show of hands or by poll. Under special circumstances, on the premise that the members of the Committee are able to sufficiently express their opinions, with the consent of the chairman of the Committee, meetings may be held by means of correspondence. Where a meeting is conducted by means of correspondence, the Committee members shall submit to the board of directors their written opinions with respect to the matters to be discussed within the period prescribed by the notice of the meeting.
- Article 25 All items on the agenda shall be discussed during the meeting of the Committee, and the Committee members shall explicitly, independently and fully express their opinions based on their own judgment. In the case of any different opinions, such different opinions shall be stated in the meeting summaries to be submitted to the board of directors.
- Article 26 The Committee may invite directors, senior management members and relevant experts of the Company, external experts, scholars, intermediary agencies and other relevant persons to sit in on a meeting. Such persons being invited shall give explanation and elaboration on any issues as required by any Committee member.
- Article 27 Where necessary, the Committee may, upon approval by the board of directors, seek for professional advice of external professional personnel or organizations. Any reasonable cost so incurred shall be borne by the Company.
- Article 28 If a member of the Committee is interested in any matter being considered by the Committee, such member shall abstain from the discussion and voting of such matter.
- Article 29 All persons attending the Committee meetings shall keep all matters discussed at the meetings confidential and shall not disclose any such information without authorization.

Chapter 6 Minutes and Summary of the Committee Meetings

- Article 30 Minutes shall be kept for all meetings of the Committee, which shall be prepared by the audit department and shall contain the following information:
- (1) serial number, form, date, venue and name of the chairman of the meeting;
 - (2) attendance and absence of members in person and by proxy;
 - (3) name and title of each attendee;
 - (4) agenda of the meeting;
 - (5) main points made by the Committee members and other relevant attendees;

- (6) name of the person taking the minutes;
- (7) abstention of any interested member (if any), which shall be specified in the minutes or the relevant resolutions.

All Committee members present at the meeting shall sign the minutes. The minutes shall be circulated to all Committee members within a reasonable time for their comments.

Article 31 After each meeting of the Committee, the audit department shall prepare a meeting summary recording the considerations and discussions of the meeting.

Copies of the meeting summary shall be submitted to the board of directors of the Company and sent to all Committee members, secretary to the board of directors, the audit, finance, legal departments of the Company and other relevant departments and persons.

Article 32 Meeting minutes, meeting summary, letters of proxy, written opinions of the members of the Committee and other materials of the meeting shall be kept by the office of the board of directors in accordance with relevant filing management system of the Company.

Chapter 7 Supplementary Provisions

Article 33 Unless otherwise specified, terms used herein shall have the same meanings ascribed to them in the Articles.

Article 34 For any matter not covered in these Terms, or in the event of any contradiction with any laws, administrative regulations, regulatory documents, and relevant regulatory requirements of the place where the Company is listed such as the Hong Kong Listing Rules, or the Articles as amended under lawful procedures promulgated after these Terms become effective, such laws, administrative regulations, regulatory documents, and relevant regulatory requirements of the place where the Company is listed such as the Hong Kong Listing Rules, and the Articles shall prevail. Amendments to these Terms shall be made forthwith and submitted to the board of directors for approval.

Article 35 These Terms have been considered and approved by the board of directors, and shall become effective and applicable from the date on which the shares of the Company are first issued and listed in Hong Kong.

Article 36 The rights of interpretation and amendment of these Terms shall be vested in the board of directors of the Company.

Article 37 These Terms are available in both Chinese and English. In case of discrepancy, the Chinese version shall prevail.