

**CHINA SHANSHUI CEMENT GROUP LIMITED**  
**中国山水水泥集团有限公司**  
(the **Company**)

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 691)**

**Audit Committee - Terms of Reference**

Adopted by the Board on 23 March 2012  
Revised on 30 December 2016

**1 Constitution**

- 1.1 The board of directors of the Company (the Board) hereby constitutes and establishes an audit committee (the Audit Committee) with authority, responsibility, and specific duties as described below.

**2 Membership**

- 2.1 The Audit Committee shall be appointed by the Board and shall consist of not less than three (3) members comprising non-executive directors.
- 2.2 The majority of the members of the Audit Committee shall be independent non-executive directors and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules (the Listing Rules) Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the Stock Exchange).
- 2.3 The members of the Audit Committee shall appoint its Chairman who must be an independent non-executive director. A quorum shall be two members.
- 2.4 A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one (1) 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.

**3 Secretary**

- 3.1 Any one of the joint company secretaries of the Company or their nominee shall act as the secretary of the Audit Committee.

#### **4 Frequency of meetings**

- 4.1 The Audit Committee shall meet at least twice a year.
- 4.2 The external auditors may request a meeting if they consider that one is necessary.

#### **5 Authority**

- 5.1 The Audit Committee is authorised by the Board to inspect all accounts, books and records of the Company.
- 5.2 The Audit Committee shall have the right to require the Company's management to furnish information on any matter relating to the financial position of the Company, its subsidiaries or affiliates, as may be required for the purpose of performing its duties.
- 5.3 Any Member may, at the Company's expense, seek external independent professional advice or secure the attendance of outsiders with relevant experience and expertise if he/she considers this is necessary in appropriate circumstances to perform his/her duties as a Member, and arrangements could be made through the Company Secretary.
- 5.4 The Audit Committee shall be provided with sufficient resources to perform its duties.

#### **6 Responsibilities, Powers and Discretion**

- 6.1 The responsibility of the Audit Committee is to assist the Board in providing an independent review of the effectiveness of the financial reporting, risk management and internal control systems of the Company, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The Audit Committee shall have the following responsibilities, powers and discretion:

##### *Relationship with the Company's auditors*

- 6.2 to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- 6.3 to act as the key representative body for overseeing the Company's relations with the external auditor;
- 6.4 to review and monitor the external auditor's independence and objectivity including to:
  - (a) consider all relationship between the Company and the audit firm; and
  - (b) obtain from the audit firm, on an annual basis, information about policies and processes from maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff;

- 6.5 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 6.6 to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally.
- 6.7 to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

*Review of the Company's financial information*

- 6.8 to monitor integrity of the Company's financial statements and annual report and accounts, half- year report and, if prepared for publication, quarterly reports and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Audit Committee shall focus particularly on:
  - (a) any changes in financial reporting and accounting policies and practices and any changes in these policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from audit;
  - (d) the going concern assumption and any qualifications;
  - (e) compliance with accounting standards; and
  - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- 6.9 regarding paragraph 6.8:-
  - (a) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
  - (b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer (or person occupying the same position), or auditors.

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

- 6.10 to review the Company's financial controls, risk management and internal control systems with particular regard to their effectiveness;
- 6.11 to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems, such discussion should include:
  - (a) the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.
  - (b) the changes in the nature and extent of significant risks, and the ability of the Company to respond to changes in its business and the external environment;
  - (c) the scope and quality of management's ongoing monitoring of risks and of the internal control systems and the work of its internal control function;
  - (d) the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Company and the effectiveness of risk management; and
  - (e) significant control failings or weaknesses that have been identified. 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 financial performance or condition of the Company;
- 6.12 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;
- 6.13 to ensure co-ordination between the internal 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;
- 6.14 to review the financial and accounting policies and practices of the Company and its subsidiaries;
- 6.15 to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 6.16 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

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

*Corporate governance functions delegated by the Board*

- 6.18 to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- 6.19 to review and monitor the training and continuous professional development of Directors and senior management;
- 6.20 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- 6.21 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- 6.22 to review the Company's compliance with the Corporate Governance Code (Appendix 14 to the Listing Rules) and the disclosure in the Corporate Governance Report to be issued in accordance with Appendix 14 to the Listing Rules;

*Report to the Board and other matters*

- 6.23 to consider and carry out any other matters specifically referred to the Audit Committee by the Board; and
- 6.24 to report on all of the above matters to the Board.

**7 Reporting Responsibilities and Procedures**

- 7.1 Without prejudice to the generality of the duties of the Audit Committee set out in these terms of reference, the Audit Committee shall report to the Board after each meeting, except on matters where there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

**8 Disagreement as to external auditor**

- 8.1 In the event the Board disagrees with the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor, the Audit Committee shall provide a statement explaining its recommendations to the Company for inclusion in the Corporate Governance Report to be issued by the Company in accordance with Appendix 14 to the Listing Rules.

## **9 Attendance**

- 9.1 As necessary or desirable, the Chairman may request that members of management and representatives of the external auditors be present at meeting of the Audit Committee. Other Board members shall also have the right of attendance. However, at least twice a year the Audit Committee shall meet with the external auditors without executive Board members present to discuss matters relating to its audit fees, any issue arising from the audit and any other matters the auditor may wish to raise.
- 9.2 Meetings can be held by way of telephone conference.

## **10 Minutes**

- 10.1 Full minutes of the Audit Committee meetings shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes of the meetings shall be sent to all members of the Audit Committee for their comment and records within a reasonable time after the meeting.
- 10.2 The secretary of the Audit Committee shall circulate the minutes of meeting of the Audit Committee to all members of the Board.

## **11 General**

- 11.1 The Audit Committee should make available these terms of reference, explaining its role and the authority delegated to it by the Board by including them on the Stock Exchange's website and the Company's website. A copy of the terms of reference will be made available to any person without charge upon request.