



# 北京京城機電股份有限公司

Beijing Jingcheng Machinery Electric Company Limited

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

(Stock Code: 0187)

## BEIJING JINGCHENG MACHINERY ELECTRIC COMPANY LIMITED TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

(In case of any inconsistency between the Chinese version and the English version, the Chinese version shall prevail.)

### Chapter 1 General Provisions

- Article 1 With a view to enhancing the decision-making function of the Board of Directors, performing pre-audit and professional audit, ensuring the Board's effective supervision of its management, and improving its corporate governance structure of the Company, the Company has hereby established the Audit Committee of the Board and formulated this Terms of Reference in accordance with the Company Law of the People's Republic of China, the Code of Corporate Governance for Listed Companies, its Articles of Association and the other relevant regulations.
- Article 2 The Audit Committee of the Board is a specific body established under the Board to be primarily responsible for coordinating, overseeing and inspecting internal and external auditing works.

## **Chapter 2 Composition**

- Article 3            The Audit Committee shall consist three directors, the majority of whom shall be independent directors and at least one member must be an independent director with professional accounting qualifications. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Audit Committee of the Company for a period of two years from the date of him/her ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is later.
- Article 4            The members of the Audit Committee shall be nominated by the Chairman of the Board, at least one half of independent directors, or one-third of all the directors, and elected by the Board.
- Article 5            The Audit Committee shall have one chairman (convener) who shall be an independent director and is responsible for chairing the Audit Committee. The chairman shall be elected from the members of the Committee and be appointed with the approval of the Board.
- Article 6            The term of office of the Audit Committee shall be identical to that of the Board. A member may be re-elected upon the expiration of his/her term of office. Any member of the Audit Committee who no longer holds office as a director of the Company during the term shall automatically cease to be a member of the Committee, and the vacancy shall be filled by the Committee in accordance with Articles 3 to 5 above.
- Article 7            The Secretariat of the Audit Committee is established under the Audit Legal Department, which is responsible for the daily operation of the Audit Committee.

## **Chapter 3 Duties and Authorities**

- Article 8            The main duties and authorities of the Audit Committee include:
- (i) to monitor and assess the performance of the external audit work, to make proposals regarding the appointment or replacement of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and to approve the remuneration and appointment terms applicable to the external auditor, and any issues related to the external auditor's resignation or dismissal and to develop and implement policy on engaging an external auditor to supply non-audit services;
  - (ii) to monitor and evaluate the internal audit work of the Company;

- (iii) to coordinate with the internal and external audits and to oversee their relations;
- (iv) to review the Company's financial information and its disclosure including monitoring completeness of the Company's financial statements and the annual report and accounts, interim report and quarterly reports, and to review significant opinions in relation to financial reporting contained in the statements and reports.

The Audit Committee should focus particularly on:

- (i) any changes in accounting policies and practices;
- (ii) major judgmental areas;
- (iii) significant adjustments resulting from audit;
- (iv) the going concern assumptions and any qualifications;
- (v) compliance with accounting standards; and
- (vi) compliance with all the applicable laws and regulations in relation to financial reporting;

The Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports 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 external auditors;

- (v) to review major financing plans submitted to the Board;
- (vi) to review the Company's annual budget, final accounts and major adjustment plans submitted to the Board as well as major off-budget items;
- (vii) monitor and assess the internal control of the Company, organise internal control check, assess internal control defects and oversee rectification;
- (viii) to review the Company's financial controls, and to review the Company's risk management and internal control systems;

- (ix) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to build effective systems. The content of this discussion should include the adequacy of resources, staff qualifications and experience for accounting and reporting functions, and the adequacy of the training programmes and the related budget;
- (x) to conduct research on major investigation findings on risk management and internal control matters and management's response to these findings or on its own initiative as delegated by the Board;
- (xi) to review the Group's financial and accounting policies and practices;
- (xii) to review the external auditors' "Explanation Letter of Audit Information" to the management, any material queries raised by the external auditors to the management about accounting records, financial accounts or systems of control and the management's response;
- (xiii) to ensure that the Board will provide a timely response to the issues raised in the external auditors' in the "Explanation Letter of Audit Information" to the management;
- (xiv) to review major connected transactions;
- (xv) to review arrangements for employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters in order to ensure that there will be a fair and independent investigation for these matters and to take appropriate follow-up action; and
- (xv) other matters as authorized by the Board.

Article 9

Before the commencement of auditing annual financial reports, the Audit Committee shall discuss with the accounting firm for determination of the scope of the audit work and the timeframe for auditing.

Article 10

The Audit Committee shall report to the Board and submit its proposals to the Board for review. It shall coordinate supervisory audit activities by the Supervisory Committee.

## Chapter 4 Decision-making Procedures

### Article 11

The Secretariat of the Audit Committee is responsible to make preliminary preparation for decision-making by the Audit Committee and to provide written related information in respect of the Company, including:

- (i) the Company's financial reports;
- (ii) work reports of internal and external auditors;
- (iii) external audit contracts and relevant work reports;
- (iv) the Company's information disclosure;
- (v) audit reports on the Company's major connected transactions; and
- (vi) other relevant matters.

### Article 12

The Audit Committee meetings review reports offered by its secretariat and submit the resolutions so formed on the following matters in writing to the Board for discussion:

- (i) evaluation of work conducted by external auditors and the appointment and change of external auditors;
- (ii) whether the Company's internal audit systems have been implemented effectively and whether the Company's internal financial analysis reports are complete and true;
- (iii) whether information disclosed by the Company including financial reports is objective, truthful and full and whether the Company's major connected transactions are compliant with the relevant laws and regulations;
- (iv) evaluation of work conducted by the financial and audit departments of the Company, including their persons in charge;
- (v) the Company's annual budget and adjustment plan;
- (vi) analysis of the implementation of the Company's annual budget; and
- (vii) other relevant matters.

## Chapter 5 Procedural rules

- Article 13 At least four meetings of the Audit Committee shall be held on demand from time to time each year. Notice shall be given five days in advance to all members before the meeting. The chairman of the Committee shall chair the meetings. If he/she is unable to be present, the chairman may authorize any other member (independent director) to chair the meeting. The members of the Audit Committee shall liaise with the Board and senior management. The Audit Committee must meet, at least twice a year, with the external auditor.
- Article 14 Two-thirds of the members are required to constitute a quorum of an Audit Committee meeting. Each member shall be entitled to one vote. Resolutions at any meetings shall be passed by a simple majority of votes of all the members.
- Article 15 Votes shall be taken by a show of hands or by poll. A meeting may be held by way of voting by communication.
- Article 16 The Audit Committee accepts written proposals as substitute for Audit Committee meetings, subject to written consent from a simple majority of all the members.
- Article 17 Members of the secretariat of the Audit Committee may attend an Audit Committee meeting. Where necessary, directors, supervisors of the Company or any other persons whom the Committee believes need to attend the meeting may be invited to attend the meeting.
- Article 18 Intermediaries may be engaged by the Audit Committee at the expense of the Company to give professional advice on its decision-making if necessary.
- Article 19 The holding procedures of an Audit Committee meeting, voting methods and resolutions passed at the meeting shall be compliant with laws, regulations, the Company's Articles of Association and the provisions herein.
- Article 20 The Audit Committee shall keep minutes of its meetings. Draft and final versions of the minutes of the meetings should be sent to all members for their comments and records respectively within a reasonable time after the meetings and the members and other persons attending the meetings shall sign on the minutes of the meetings. All meeting minutes shall be kept by the Secretary of the Board for five years.
- Article 21 Resolutions passed at an Audit Committee meeting and voting results thereon shall be submitted to the Board in writing.
- Article 22 Members present at Audit Committee meetings shall be obliged to keep confidential all matters discussed at the meetings and shall not disclose such information without authorization.

## **Chapter 6 Addendum**

- Article 23           The Terms of Reference shall take effect after the resolution is passed by the Board.
- Article 24           In case of matters not covered herein, the relevant state laws, regulations and the Articles of Association of the Company shall apply. In case the Terms of Reference conflict with the state laws and regulations which are to be issued in the future or the Articles of Association of the Company as legally modified, the relevant state laws, regulations and the Articles of Association of the Company shall prevail. In such case, corresponding amendments shall be made to the Terms of Reference immediately and be submitted to the Board for approval.
- Article 25           The Terms of Reference shall be construed and interpreted by the Board of the Company.

*The Board of Directors*

**Beijing Jingcheng Machinery Electric Company Limited**

29 October 2020