



**第一拖拉机股份有限公司**  
**FIRST TRACTOR COMPANY LIMITED**\*

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

(Stock Code: 0038)

## **IMPLEMENTATION RULES FOR THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

(Reviewed and approved at the First Meeting of the Fifth Board of Directors  
held on 26 June 2009 and amended on 24 February 2012)

## **CHAPTER 1 GENERAL PROVISIONS**

**Article 1.** To further improve the corporate governance structure of the First Tractor Company Limited (hereinafter referred to as the Company), enhance the policy-making functions of the Board of Directors, ensure the Board's effective supervision on the management and external auditors, and protect the legitimate rights and interests of investors, the Board of Directors shall set up an Audit Committee. These Implementation Rules shall be developed according to the Company Law of the People's Republic of China, Rules Governing The Listing Of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the Listing Rules), the Articles of Association of the Company (hereinafter referred to as the Articles of Association), and other relevant regulations.

**Article 2.** The Audit Committee of the Board of Directors is a specialized working committee under the Board of Directors, primarily responsible for reviewing the Company's internal control system and significant connected transactions, auditing the Company's financial information and its disclosure, and managing the communication, supervision and verification efforts in internal and external audits.

## **CHAPTER 2 COMPOSITION**

**Article 3.** The number of members of the Audit Committee shall not be less than three. All members shall be the existing non-executive Directors of the Company, with a majority of independent non-executive Directors. At least one of them shall be an independent non-executive Director with appropriate accounting or related financial management expertise specified in Rule 3.10 (2) of the Listing Rules.

**Article 4.** The members of the Audit Committee shall be nominated by the Chairman of the Board of Directors, half of the independent non-executive Directors or more than one-third of Directors and appointed by the Board of Directors.

**Article 5.** The Audit Committee shall have a chairman, who shall be an independent non-executive Directors.

**Article 6.** The term of office of the Audit Committee shall be the same to that of Directors. Upon expiry of his term of office, a member of the Audit Committee may be re-elected and re-appointed. If any Directors no longer hold the position of Directors of the Company during such period, he will automatically lose his qualification of the Audit Committee. The Board of Directors shall determine the new candidates in accordance with the Articles 3 to 5 hereof.

**Article 7.** A member of the Audit Committee may submit a written resignation to the Board of Directors prior to the expiry of his term of office. Any situations relevant

to the resignation or deemed by such member deserving the attention of the Company's Board of Directors and shareholders shall be stated in the written resignation.

### **CHAPTER 3 TERMS OF REFERENCE**

**Article 8.** The main duties of the Audit Committee are to use its professional judgment to act for the best interests of the Company and its shareholders. The specific duties shall include, but not limited to, the following:

- (1) To be responsible for making recommendations to the Board of the Directors on the appointment, reappointment and removal of external auditor (i.e. external audit institution), approving remuneration and terms of engagement of the external auditors, and dealing with any issues relating to its resignation by and dismissal.
- (2) To review and monitor the independence and objectivity of the auditors and the effectiveness of audit process in accordance with applicable standards; to discuss the nature and scope of the audit and the reporting obligations before the audit commences with the auditors; to meet with the auditors at least twice every year;
- (3) To develop and implement policies on engaging an external auditor to supply non-audit services. The Audit Committee shall report to the Board of Directors, identifying and making recommendations on any matters where action or improvement is needed.
- (4) To review the management proposal provided by external auditor to the Company's management team, any material queries raised to the management team by the auditors about accounting records, financial accounts or systems of control and the management's response; to ensure that the Board of Directors makes timely response to the issues raised in the management proposal provided by external auditor to the Company's management team.
- (5) To monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly report (if prepared for publication), through the external auditor's reports; to review the significant financial reporting judgments contained in them, to find the progress of handling and make recommendations or reports to the Board of Directors. In reviewing these reports before submitting them to the Board of Directors, the committee should focus particularly on:
  1. Any changes in accounting policies and practices;

2. Major judgmental areas;
  3. Significant adjustments resulting from audit;
  4. The going concern assumptions and any qualifications;
  5. Compliance with accounting standards; and
  6. Compliance with the Listing Rules and other legal requirements relating to financial reporting.
- (6) For the purpose of item (5) above: (a) Members of the Audit Committee should contact liaise with the Board of Directors and senior management of the Company; (b) The Audit Committee should consider any significant or unusual issues that are, or may need to be, reflected in such reports and accounts, and it should give due consideration to any matter that have been raised by any accounting and financial reporting staff members of the Company, compliance officer or the auditors.
- (7) To hear the internal audit department's work report and review the Company's financial and accounting policies and practices; To supervise the Company's internal audit system and its implementation; to review the effectiveness of the Company's financial controls, internal controls and risk management systems.
- (8) To discuss with management on the internal control system to ensure that the management has performed its duty to establish an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function.
- (9) To consider major investigations findings on internal control matters as delegated by the board or on its own initiative and the management's response to the findings.
- (10) To pay attention to the communication on relevant matters among the Company's financial accounting department, internal audit department and external auditors; to ensure coordination between the work of internal and external auditors; to ensure the availability of adequate resources within the Company and considerable authority to the internal audit function; and to review and monitor their effectiveness.
- (11) To review the Group's financial and accounting policies and practices;
- (12) To report issues contained in these Implementation Rules to the Board and handle other matters authorized by the Board.

(13) To study other topics defined by the Board.

(14) To review the following arrangements made by the Company: employees may raise concerns in confidence on possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for fair and independent investigations of these matters and for appropriate follow-up actions.

The Audit Committee may develop establish a whistleblowing policy and systems (if necessary), for the employees and other persons (such as customers and suppliers) who deal with the Company to raise their concerns in confidence on any possible improprieties in any matter related to the Company.

(15) To serve as the key representative body for overseeing the Company's relations with the external auditor.

**Article 9.** The Audit Committee shall be accountable to the Board. The proposal of the Audit Committee shall be submitted to the Board for consideration and decision.

## **CHAPTER 4 WORKING PROCEDURES**

**Article 10.** The Audit Committee may ask the senior management including the general manager to directly report their work to the Audit Committee or answer queries concerning their work. When necessary, the Audit Committee may hold separate meetings with the management, the internal audit department and the external audit institution, and submit the meeting minutes to the Board.

**Article 11.** The Company's management, finance, internal audit and other relevant departments shall be responsible for providing the following materials on relevant aspects of the Company to the Audit Committee:

- (1) Proposal materials related to functions and duties of the Audit Committee to be submitted to the Board of Directors for review and discussion;
- (2) The Company's relevant financial reports;
- (3) Reports on the work of the internal audit department;
- (4) External audit contracts and relevant working reports;
- (5) The Company's public disclosure of financial information;

(6) Audit reports on significant connected transactions of the Company;

(7) Other related matters.

**Article 12.** Within 30 days after the end of each fiscal year, the Audit Committee shall consult the auditors of the Company to determine the schedule of audit work for this year's financial reports. The Audit Committee shall focus on communicating with auditors after they coming in and review the Company's financial accounting statements for one more time after they present their preliminary audit opinions, forming written comments. The Audit Committee should vote on the annual financial accounting statements and provide suggestions on re-appointment or replacement of auditors for the next year, forming resolutions to be submitted to the Board of Directors for consideration and approval.

## **CHAPTER 5: RULES OF PROCEDURE**

**Article 13.** The Audit Committee shall notify all members five days prior to the date of the meeting. In case of emergency, an interim meeting may be convened if it is confirmed that the notice has been served to all members of the Audit Committee, without the time limit of the aforementioned meeting notice.

**Article 14.** The Audit Committee meetings shall be held only if attended by not less than two-thirds of the members. The meeting shall be chaired by the Chairman of the Committee. If the Chairman of the Committee is unable to attend the meeting, he may appoint another member of the Committee (an independent non-executive Directors ) to chair the meeting.

**Article 15.** The Audit Committee meetings may be held by means of on-site meetings or audio/video conferences. The voting may be made by show of hands or by poll. Each member shall have one vote. Resolutions made at the meeting shall be approved by a majority of the members.

**Article 16.** If necessary, the Audit Committee may invite other Directors, supervisors, management members and persons from other relevant departments to sit in the meeting.

**Article 17.** If necessary, the Audit Committee may engage intermediary institutions to provide professional advice for its decision-making. Relevant expenses shall be borne by the Company.

**Article 18.** The procedures and method of voting of the Audit Committee meetings and proposals approved at the meetings shall comply with the provisions of relevant laws, regulations, the Articles of Association and these Implementation Rules.

**Article 19.** Minutes shall be taken at the meeting of Audit Committee. Draft and final versions of minutes of the meetings should be sent to all committee members for their comment and records, within a reasonable time after the meeting. Members present at the meeting shall sign their names on the minutes of the meeting. Meeting minutes shall be kept by the Secretary to the Board of Directors for not less than ten years.

**Article 20.** The resolutions passed by the Audit Committee meetings and the result of the voting shall be reported to the Board of Directors of the Company in writing.

**Article 21.** Members of the Audit Committee shall keep the confidentiality of the Company's information they access because of their office and shall not disclose relevant information without authorization. Otherwise, they shall bear the corresponding legal liabilities.

## **CHAPTER 6 SUPPLEMENTARY PROVISIONS**

**Article 22.** Matters not covered by these Implementation Rules shall be handled in accordance with the provisions of relevant laws and regulations of the PRC, the Listing Rules, and the Articles of Association. Any provisions conflicting with the relevant laws and regulations of the PRC, the Listing Rules, or the duly amended Articles of Association shall be revised immediately and reported to the Board of Directors for consideration and approval.

**Article 23.** In these Implementation Rules, the scopes "above" and "below" a number shall include the number itself while the scopes "more than" and "less than" a number shall not include the number itself.

**Article 24.** These Implementation Rules shall be effective upon the date of review and approval by the Board of Directors and is applicable to any amendments hereto.

**Article 25.** The Board of Directors shall be responsible for the interpretation of these Implementation Rules.

*# These Rules have both Chinese and English versions, the English version is for reference only. Should*