



# 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 and 18 January 2016)

#### 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. This 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 relevant 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 is responsible for presiding over the Committee's work. The chairman shall be an independent non-executive Director with accounting or financial management related expertise.
- Article 6.** The term of office of the Audit Committee shall be the same as the Directors. Upon expiry of his term of office, a member of the Audit Committee may be re-elected and re-appointed. If any Director no longer holds the position of Director 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 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 necessary to be brought to the attention of the Company's Board of Directors and shareholders by such member shall be stated in the written resignation.

### CHAPTER 3 TERMS OF REFERENCE

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

- (1) To be responsible for making recommendations to the Board of Directors on the appointment, reappointment and removal of external auditor (i.e. external audit institution), approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal.
- (2) To review and monitor the independence, objectivity and diligence of the external auditor and the effectiveness of the audit process in accordance with applicable standards; to discuss with the auditor the nature of the audit, scope of the audit, audit plan, audit method and reporting obligations before the audit commences.
- (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 management, any material queries raised to the management 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 management.
- (5) To monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, through the external auditor's audit reports, and to review the significant financial reporting judgments and accounting and audit issues contained in them, to understand the progress of handling such issues and make recommendations or reports to the Board of Directors. In reviewing these statements, reports and accounts 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 liaise with the Board of Directors and senior management of the Company; and (b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and it should give due consideration to any matters 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 working report and review the Company's financial and accounting policies and practices; to supervise the Company's internal audit system and its implementation; and to review the Company's financial controls, risk management and internal control systems.
- (8) To discuss with management the risk management and internal control systems to ensure that the management has performed its duty to have effective systems. 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 review the internal control self-evaluation report of the Company and the internal control audit report issued by external auditor to assess the evaluation on internal control and audit result, and encourage improvement on internal control deficiency.
- (10) To consider major investigations findings on risk management and internal control matters as delegated by the Board of Directors or on its own initiative and the management's response to the findings.

- (11) To pay attention to the communication on relevant matters among the Company's financial accounting department, internal audit department and external auditor; to ensure coordination 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 their effectiveness.
- (12) To review the Group's financial and accounting policies and practices.
- (13) To report issues contained in this Implementation Rules to the Board of Directors and handle other matters authorized by the Board of Directors.
- (14) To study other topics defined by the Board of Directors.
- (15) 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 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.
- (16) 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 of Directors. The proposal of the Audit Committee shall be submitted to the Board of Directors 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 auditor, and submit the meeting minutes to the Board of Directors.

**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) The risk management and internal control report; and
- (8) Other related matters.

**Article 12.** Within 30 days after the end of each fiscal year, the Audit Committee shall consult the external auditor of the Company to determine the schedule of audit work for this year's financial reports. The Audit Committee shall strengthen its communication with auditors after they come in and review the Company's financial accounting statements for one more time after they present their preliminary audit opinions, and form 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, and form resolutions to be submitted to the Board of Directors for consideration and approval.

## CHAPTER 5 RULES OF PROCEDURE

**Article 13.** Regular meetings of the Audit Committee shall be convened at least four times per year and the Audit Committee may convene interim meeting if necessary. Interim meeting may be convened when it is requested by two members or above or deemed necessary by the chairman of the Audit Committee.

The Audit Committee shall convene at least one meeting in the absence of the management per year, and meet, at least twice per year, with the Company's external auditor.

**Article 14.** 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, notwithstanding the aforementioned limitation on meeting notice period.

**Article 15.** 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 Director) to chair the meeting.

**Article 16.** Opinion raised by the Audit Committee to be considered by the Board of Directors shall be approved by a majority of all members. In the event that members of the Audit Committee fail to form an effective opinion due to withdrawal, the relevant matter shall be considered directly by the Board of Directors.

**Article 17.** 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 written resolution. Each member shall have one vote. Resolutions made at the meeting shall be approved by a majority of the members.

**Article 18.** If necessary, the Audit Committee may invite other Directors, supervisors, management members and persons from other relevant departments to be in attendance in the meeting.

**Article 19.** 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 20.** 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 this Implementation Rules.

**Article 21.** 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 22.** 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 23.** Members of the Audit Committee shall keep the confidentiality of the Company's information they access because of their office and shall not disclose such information without authorization. Otherwise, they shall bear the corresponding legal liabilities.

## **CHAPTER 6 SUPPLEMENTARY PROVISIONS**

**Article 24.** Matters not covered by this 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 25.** In this 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 26.** This 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 27.** The Board of Directors shall be responsible for the interpretation of this Implementation Rules.

# *This Implementation Rules have both Chinese and English versions, the English version is for reference only. Should there be any discrepancy between the two versions, the Chinese version shall always prevail.*

\* *For identification purposes only*