

# Rizhao Port Jurong Co., Ltd.

## Terms of Reference and Rules of Procedures of the Audit Committee under the Board

### CHAPTER 1 GENERAL PROVISIONS

**Article 1** In order to enhance the internal control, audit and connected transaction systems, ensure effective management of the Board for the senior management of Rizhao Port Jurong Co., Ltd. (hereinafter referred to as the “**Company**”, together with its subsidiaries, the “**Group**”) in financial reporting, risk management and internal control, and improve the corporate governance structure, the Audit Committee under the Board is established and these terms of reference are formulated in accordance with the relevant laws and regulations of the Company Law of the People’s Republic of China (hereinafter referred to as the “**Company Law**”), the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (hereinafter referred to as the “**Hong Kong Listing Rules**”) and the requirements of the Articles of Association of Rizhao Port Jurong Co., Ltd. (hereinafter referred to as the “**Articles of Association**”).

**Article 2** The Audit Committee (hereinafter referred to as the “**Committee**”) is a standing committee under the Board and is principally performing its monitoring function in the following areas:

- (I) truthfulness of financial reports and procedures for financial reporting;
- (II) effectiveness of risk management and internal control systems;
- (III) ensuring the adequacy of resources, qualifications and experience of the accounting and financial reporting staff in accounting, internal audit and financial reporting functions and their staff training programs and budget expenditure;
- (IV) reviewing the findings of internal investigations and management’s response regarding any suspected frauds or irregularities or suspected violations of laws, rules and regulations;
- (V) assessing whether the Company has any significant failings or weaknesses in internal control;
- (VI) ensuring the extent and frequency of adequate and effective communication of monitoring results by the relevant functional departments to the Board and its committees;
- (VII) assessing the changes in the nature and extent of significant risks faced by the Company after the previous year and the Company’s ability to respond to the changes in its businesses and external environment;
- (VIII) performance of internal audit functional departments and personnel;
- (IX) appointment of external auditors and assessment of their qualifications, independence and performance;

- (X) periodic review and annual audit of the Group's financial reports; and
- (XI) compliance with applicable accounting standards and legal and regulatory requirements on financial information disclosures.

**Article 3** The Committee shall be responsible for risk management and monitoring and shall be accountable to the Board. The senior management shall be responsible for the preparation, submission and truthfulness of financial reports and provide the confirmation to the Committee regarding the effectiveness of the relevant risk management and internal control systems. The senior management and external auditors shall both be ultimately accountable to the Board and shareholders.

## **CHAPTER 2 COMPOSITION**

**Article 4** The Committee shall consist of at least three members who shall all be non-executive directors and directly appointed by the Board. The majority of the members shall be independent non-executive directors. The Committee shall be chaired by an independent non-executive director.

**Article 5** At least one member of the Audit Committee shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

**Article 6** A former partner of the existing auditor responsible for auditing of the Group's accounts shall not serve as member of the Group's Audit Committee within one year after any of the following dates (whichever is later):

- (I) the date when it ceases to be a partner of the firm; or
- (II) the date when it ceases to have any financial interest in the firm.

**Article 7** Members of the Committee shall attend regular meetings of the Committee, and shall actively express their opinions on matters proposed at the meetings, have a thorough understanding of the roles and responsibilities of the Committee and themselves as members of the Committee, and be familiar with the operation mode, business activities and development of the Group.

**Article 8** The person in charge of internal audit of the Group shall be present at the meetings of the Committee to provide assistance. At the request of the Committee, the senior management, the person in charge of the finance department and representatives of external auditors of the Group shall also be in attendance at some or all meetings of the Committee or participate in the discussion of certain matters proposed at the meetings.

**Article 9** The secretary of the Board or the joint company secretaries of the Company or their proxy shall be the secretary of the Committee.

# CHAPTER 3 DUTIES AND RESPONSIBILITIES

## Section 1 Financial Reporting

**Article 10** The Committee shall be responsible for reviewing and monitoring the effectiveness of the financial reporting procedures implemented by the senior management and their compliance with applicable laws and regulations.

**Article 11** The Committee shall review the following with the senior management and the internal and external auditors:

- (I) the appropriateness of the Group's accounting and financial reports, including compliance with the accounting standards, any complex or unusual transactions, accounting treatment of significant risks and uncertainties and areas requiring highly subjective judgment;
- (II) material adjustments arising from audit;
- (III) significant accounting and financial reporting issues raised by internal and external auditors;
- (IV) new developments of or significant changes to the Group's existing accounting policies and recommendations to the Board on any significant new policies or significant changes to existing policies;
- (V) other reports submitted by the Board in relation to the duties and responsibilities of the Committee.

**Article 12** The Committee shall review with the senior management and the internal and external auditors and approve or, if necessary, recommend for approval by the Board:

- (I) the audited annual financial reports together with the report of the external auditors;
- (II) the interim financial reports;
- (III) the quarterly results, if applicable;
- (IV) all the financial information contained in important disclosed documents, including prospectus, shareholder circular and other documents concerning placement of shares.

**Article 13** In reviewing financial reports, the Committee shall pay attention to any changes in accounting policies and practices.

**Article 14** If a dividend proposal submitted by the senior management deviates from the dividend policy approved by the Board, the Committee shall review such dividend proposal and make recommendations to the Board.

**Article 15** The Committee shall review with the senior management and the internal auditors the measures and procedures for control of the regulatory documents submitted by the Group to the regulatory authorities.

## **Section 2 Risk Management and Internal Control Systems**

**Article 16** The Committee shall review and evaluate whether the senior management has established appropriate risk management and internal control systems. This function is part of the Committee's risk management and control duties to establish proper and effective risk management and internal control systems. It is the responsibility of the senior management to confirm to the Committee as to the effectiveness of the risk management and internal control systems. The Committee shall discuss with the senior management in relation to the risk management and internal control systems and ensure that the management has performed its duties to establish effective risk management and internal control systems.

**Article 17** The Committee shall review the internal audit programs of the Company and its subsidiaries, review such annual audit plans with the internal auditors and provide guidance to them so as to consider the adequacy of the accounting system, risk management and the degree of internal control.

**Article 18** With the help of risk management personnel and internal auditors, the Committee shall at least annually conduct a review of the soundness and effectiveness of the risk management and internal control hierarchy, mechanism and system of the Group, and advice and make recommendations on the improvement of the risk management and internal control systems of the Group. Such review shall cover all important monitoring areas, including the functions of financial monitoring, operational monitoring and compliance monitoring, and monitoring of the implementation of the Group's risk management system. The Committee shall discuss with the management the risk management and internal control systems and ensure that the management has performed its duties to establish such effective systems. This discussion shall include the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions and their staff training programs and budget. The Committee shall discuss with the management about the scope and quality of the ongoing monitoring of risks and the internal control system as well as the internal audit function and work of other providers of assurance. The Committee shall take the initiative to or, upon delegation by the Board, study the important investigation results of the relevant risk management and internal control matters as well as the management's response to the investigation results. The Committee shall oversee the management in the design, execution and supervision of the risk management and internal control systems, and urge the management to confirm whether the abovementioned systems are effective.

The Committee shall particularly focus on the following in conducting such annual review:

- (I) the changes since the last annual review in the nature and severity of significant risks, and the Group's ability to respond to the changes in its internal business and the external environment;
- (II) the scope and quality of the senior management's ongoing monitoring of risks (including but not limited to compliance risks on financial reporting, accounting and external reporting) and the internal control system and, if applicable, the internal audit function and work of other providers of assurance;
- (III) the effectiveness of the internal control system established by the senior management to monitor transactions entered into or to be entered into between any member of the Group and any connected person or related party within the meaning of the Hong Kong Listing Rules;
- (IV) the effectiveness of the Group's procedures in relation to financial reporting and compliance with the Hong Kong Listing Rules;
- (V) the work of the internal risk management and audit functions and other supervision departments, including the reports (both regular and exceptional) issued by the risk management personnel and internal auditors, management recommendations submitted by the external auditors as well as the senior management's responses, and any examination reports issued by regulatory authorities and the senior management's responses. The Committee shall also meet with the senior management, the risk management personnel, the internal auditors and the external auditors to discuss findings from its work and the resolution, or otherwise, any difficulties encountered;
- (VI) the extent and frequency of communication of monitoring results to the Committee which enables it to build up a cumulative assessment of the state of control in the Group and the effectiveness of financial reporting risk management;
- (VII) the incidence of significant control failings or weaknesses that have been identified at any time during the period and 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 Group's financial performance or condition;
- (VIII) regarding risk management matters that may have a significant impact on the Group's financial position and reputation, ensuring that the matters have been properly addressed, and ensuring that any significant impact of these issues is reflected in the financial reports; and
- (IX) the adequacy of resources, qualifications and experience of staff of the Group's accounting, risk management, internal audit and financial reporting functions and their staff training programs and budget.

**Article 19** The Committee shall review arrangements under which employees of the Group may raise concerns about possible improprieties in financial reporting, internal control or other matters privately. The Committee shall ensure that proper arrangements are in place for the fair and independent investigations of such matters and for appropriate follow-up action;

**Article 20** The Committee shall study important investigation results of the relevant risk management and internal control matters (whether the investigation is conducted as delegated by the Board or on its own initiative) and the senior management's response to these results.

### **Section 3 Internal Audit**

**Article 21** The Committee shall:

- (I) regularly assess and monitor the effectiveness of the internal audit function, review and approve the duties and responsibilities and structure of internal audit with reference to the opinions of the senior management and the person in charge of internal audit, and ensure that the internal audit function has an appropriate standing and no unreasonable restrictions are imposed on its function;
- (II) be informed of the results of assessment on the person in charge of internal audit;
- (III) approve the results of assessment on other senior members of the internal audit team as advised by the person in charge of internal audit and report the same to the Audit Committee;
- (IV) review, monitor, examine and approve the audit programs, approaches, annual audit plans and budgets for internal audit and ensure the independence of internal audit and sufficient resources available to conduct relevant work; and
- (V) ensure adequate communication and coordination between the internal audit department and external auditors.

**Article 22** The Committee shall urge relevant functional departments to disclose, in the Corporate Governance Report, how the Company has complied with the risk management and internal control code provisions during the reporting period. In particular, they shall disclose:

- (I) the procedures used by the Company to identify, evaluate and manage significant risks;
- (II) the main features of the Company's risk management and internal control;
- (III) the procedures used by the Company to review the effectiveness of risk management and internal control systems;
- (IV) the procedures and internal control measures of the Company for handling and dissemination of inside information;
- (V) the frequency of the Board for reviewing risk management and internal control systems and whether the systems are sufficient and effective in the view of the Company.

The Committee shall also urge the Board to disclose, in the Corporate Governance Report, whether it has obtained the confirmation from the management on effectiveness of the Company's risk management and internal control systems and urge the Board to disclose details of other important concerns.

The Committee shall:

- (I) review relevant reports submitted by internal audit, and the senior management's responses to any identified weaknesses on internal control; and
- (II) receive and review the reports of internal audit on summarizing the senior management's responses to matters for which no measures have been taken and the implementation of relevant matters.

**Article 23** The Committee shall individually meet the person in charge of internal audit in the absence of senior management or executive directors to discuss any issue needing to be separately discussed in its or internal auditors' view.

#### **Section 4 External Audit**

**Article 24** The Committee is responsible for monitoring external auditors, reviewing and monitoring the independence and objectivity of external auditors, as well as the effectiveness and compliance of audit methods to ensure external auditors are ultimately accountable to the Board, the Committee, and shareholders.

**Article 25** The Committee shall make recommendations to the Board on the appointment, reappointment and change of external auditors so as to submit the same to the general meeting for approval, and approve the remuneration and terms of service of external auditors. In the event of resignation of any external auditors, the Committee shall look into the details of the resignation and clarify with the outgoing external auditors whether there is any work matter or reason for resignation needing to bring to the attention of the Board and shareholders.

**Article 26** The Committee shall discuss with external auditors the nature and scope of the audit before the Committee and the external auditors commence the audit work, review and monitor the effectiveness of the audit procedures in accordance with applicable standards, and ensure that the audit plan is risk-based and covers all relevant measurable activities during the entire accounting period, and coordinate the internal audit and external audit work. The Committee shall also review with external auditors (and senior management) all matters to be reported to the Committee in relation to general accounting standards.

**Article 27** The Committee shall review and monitor the completeness, accuracy and fairness of interim and annual financial statements before submission to the Board with particular regard to changes in accounting policies and practices, major judgmental areas, adequacy of information disclosure, consistency between the financial statements and prior disclosures, any significant audit adjustments, the going concern assumption and any restrictive conditional statement, all applicable laws and accounting standards and compliance of financial reporting as specified in the Hong Kong Listing Rules and other laws.

**Article 28** The Committee shall review the audit results with external auditors, internal auditors and senior management, and report the same to the Board. The specific scope of review shall include but is not limited to:

- (I) the external auditors' evaluation on the Group's internal accounting systems and relevant opinions;
- (II) the extent to which the management has cooperated with external auditors, including any major problems arising from the audit and any restrictions imposed by the senior management or disagreement with the senior management on significant accounting issues;
- (III) existing or potential problems related to accounting and/or audit matters and any accounting errors, and any changes in accounting procedures and/or internal control system identified or arising during the audit;
- (IV) matters specified in the explanatory statements submitted by external auditors to senior management in respect of audit, the senior management's responses and follow-up of any identified weaknesses;
- (V) the appropriateness and standardization of principal accounting policies and treatments of the Group and adoption of new accounting policies and treatments; and
- (VI) any other financial treatments that have been discussed with the senior management, specific use of existing treatments and external auditors' suggested treatments, as well as any other material event communicated with the senior management.

For the purposes of paragraph (I) of this article above, the Committee shall coordinate the settlement of any disagreements and disputes between the senior management and external auditors arising from financial reporting in order to ensure the smooth preparation or issue of audit reports or implementation of related work. In the event of any material weaknesses identified, the Committee shall make recommendations to the Board on the actions to be taken.

**Article 29** The Committee shall review the scope of audit and any other services provided by the external auditors and approve their fees and terms of service. As part of the review, the Committee shall:

- (I) advise the external auditors to conduct any supplementary audit as deemed appropriate by the Committee;
- (II) review, with the external auditors, recent or expected developments of accounting principles or reporting practices that may affect the Company or the scope of audit; and
- (III) discuss major expected audit issues, if any.



**Article 30** The Committee shall make recommendations to the Board on the policy of engaging external auditors to provide non-audit services. For non-audit services, the Committee shall consider:

- (I) whether there are preventive measures or whether it is necessary to take or advice the Board to take appropriate measures to ensure that external auditors will not pose threat to the objectivity and independence of audit work when they provide such non-audit services; and
- (II) the nature of non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the external auditors.

**Article 31** The Committee shall annually review all non-audit works performed by the external auditors to ensure that such non-audit works do not involve any impermissible non-audit work and do not impair the independence of the external auditors.

**Article 32** The Committee shall approve the policy on hiring employees or former employees of the external auditors and monitor the adoption of such policy to assess whether it has affected or is likely to affect the judgment or independence of the external auditors in audit.

**Article 33** The Committee shall meet with the external auditors at least twice a year to discuss matters regarding the audit fees, any matters arising from audit and any other matters the external auditors wish to discuss.

## **Section 5 Others**

**Article 34** The Committee shall preliminarily consider the connected transactions requiring approval from the general meeting or the Board, and shall submit the same to the Board for approval.

**Article 35** The Committee shall consider and approve connected transactions or accept archiving of connected transactions within the scope of authorization of the Board.

**Article 36** Subsequent to the year end, the Committee shall submit to the Board a special report on connected transactions and implementation of the connected transaction management system during the year which shall fully and accurately report the overall positions, risk degree and structural distribution of the connected transactions which the Company has conducted during the year.

**Article 37** The Committee shall review the soundness of the arrangements under which the Company permits the employees to report or complain about any irregularities of the Company in financial reporting, internal control or other areas, and ensure that the Company has appropriate arrangements for fair and independent investigation and follow-up on relevant matters.

**Article 38** The Committee shall work with the Supervisory Committee in its supervisory audit.

**Article 39** The Committee may study other subjects determined by the Board, keep the Board informed of any events which may have a material effect on the Group's financial position or business development, and make appropriate recommendations to the Board.

**Article 40** The Committee shall handle other matters stipulated by laws, regulations, regulatory documents and the Articles of Association, required by the securities regulatory authorities of the place where the shares of the Company are listed and authorized by the Board (including studying other subjects determined by the Board).

**Article 41** The Committee shall communicate with other committees on a regular basis, ensure all material risk management issues and irregularities have been thoroughly discussed and followed up by taking into account the Board's responsibilities for the control of all risks, and ensure appropriate coordination has been provided to all reviews on internal control systems conducted by the Committee through audit.

**Article 42** The Committee shall upload these terms of reference to the websites of the Stock Exchange of Hong Kong Limited and the Company to explain its duties and powers delegated by the Board.

#### **CHAPTER 4 POWER**

**Article 43** The Committee has the right to seek adequate resources and administrative support from senior management of the Group and has separate and independent access to senior management of the Group.

**Article 44** Senior management are expected to support the work of the Committee in the best possible faith to ensure that they provide the Committee with all the information necessary and appropriate in respect of the Group's operation, business, status etc. for the Committee to fulfil its responsibilities on a timely basis. The Committee has the right to request any member of senior management and any employee of the Group to promptly respond to the queries raised by any member of the Committee as comprehensive as possible. Information provided to the Committee shall be accurate and complete, and be in the form and of the quality enabling the Committee to make an informed decision.

**Article 45** The Committee has the right to act on its own or at the appointment by the Board to investigate major internal control issues, review the Group's operating, financial and accounting policies and practices, study relevant findings and responses of the senior management, and report the results of the investigation and review to the Board and make relevant recommendations.

**Article 46** Members of the Committee may, upon reasonable request, seek independent professional advice for their decision-making in appropriate circumstances, at the Group's expense. In the event of seeking advice from an external consultant, such consultant shall be appointed by the chairman of the Committee and its opinions shall be directly submitted to the chairman of the Committee (independent of the senior management).

## CHAPTER 5 RULES OF PROCEDURES

**Article 47** The Committee shall convene meetings at least twice a year before the periodical meetings of the Board. Notices shall be given to all members no less than 3 business days prior to the meeting, but the notice period may be waived with the written consent from more than half of the members.

**Article 48** Extraordinary meetings may be convened upon proposal by the chairman or more than half of all members of the Committee. Notices of extraordinary meetings shall be given to all members no less than 3 business days prior to the meeting, but the notice period may be waived with the written consent from more than half of the members.

**Article 49** Materials and notice of the meetings of the Committee shall be issued simultaneously. All members shall fully read meeting materials prior to the meeting.

**Article 50** In principle, the meetings of the Committee shall be convened in an onsite way with the presence of more than half of all members. The meetings may also be convened by telecommunication means or circulation of written resolutions provided that all members fully express their opinions. Telecommunication means refer to the use of telephone, videos and other means to participate in the meeting; circulation of written resolutions refers to the way of making decision on proposals through separate or circulated service and consideration. The quorum of the meetings of the Committee shall be two, one of whom must be an independent non-executive director.

**Article 51** The chairman of the Committee shall preside over meetings of the Committee. In the event that the chairman of the Committee is unable to attend, another member (independent non-executive director) may be designated to preside over the meetings. If such delegation is not made, more than half of the members being present shall select a member (independent non-executive director) to preside over the meetings.

**Article 52** Members of the Committee shall attend the meetings in person. In the event that a member is unable to attend, he may authorise another member in writing to attend and vote on his/her behalf. The proxy who attends and votes at the meeting shall submit the power of attorney to the chairman of the meeting before it begins. The power of attorney shall set out the name of the principal, name of the proxy, matters delegated, voting instructions on matters proposed at the meeting (for or against), scope and validity period of authorization, and shall be signed or sealed by the principal. The proxy shall exercise the right within the scope of authorization. The principal who authorizes other members to attend the meeting on his/her behalf shall be solely liable to any decisions made by the proxy within his/her scope of authorization.

**Article 53** Votes at the meetings of the Committee shall be conducted by a show of hands, by voice or by disclosed ballot, and every member shall have one vote. Resolutions made at the meetings shall not take effect unless they are passed by more than half of all members (including members unable to be present). Members of the Committee shall give express votes, either for or against, but may not abstain from voting.

**Article 54** Representatives of the auditors usually attend the meetings of the Committee to provide assistance. At the request of the Committee, it may invite non-members of the Committee such as directors, supervisors, relevant members of senior management and head of relevant departments to be in attendance at some or all of the meetings of the Committee. A prior approval from the chairman of the Committee shall be obtained for the list of such persons in attendance at the meeting.

**Article 55** Any member who is involved in any resolution considered at the meetings of the Committee and his/her associates shall abstain from attending the meetings.

**Article 56** Full records of the meeting of the Committee shall be kept. Minutes of the meetings of the Committee shall sufficiently record the matters considered and decisions reached by the Audit Committee and auditors in detail, including any concerns raised by the directors or dissenting views expressed. Members attending the meetings shall sign on the final version of the minutes of the meetings of the Committee.

**Article 57** Members of the Committee and persons in attendance at the meetings are liable to keep all considered matters confidential and shall not disclose such relevant information without approval.

## **CHAPTER 6 REPORTING PROCEDURES**

**Article 58** All minutes of the meetings prepared by the Committee in accordance with the Article 56 above regarding the rules of procedures shall be kept by the secretary of the Committee and be available for inspection at any reasonable time on reasonable notice by any director.

**Article 59** The Committee shall regularly report to the Board on matters set out in these terms of reference, including the work of the Committee, and shall notify the Supervisory Committee of the same, unless it is prohibited by laws and regulatory rules.

## **CHAPTER 7 ANNUAL GENERAL MEETING**

**Article 60** The chairman of the Committee shall attend annual general meetings of the Company and be prepared to answer any shareholder's questions in relation to the duties of the Committee.

**Article 61** If the chairman of the Committee is unable to attend an annual general meeting of the Company, he/she shall arrange for another member of the Committee to attend in his/her place. Such member shall be prepared to answer any shareholder's questions in relation to the work of the Committee at the annual general meeting.

## **Chapter 8 Effective Date and Amendments**

**Article 62** These terms of reference shall take effect from the date of the listing of the Company subject to consideration and approval by the Board. Where it is necessary to amend these terms of reference in light of changes in situation, the amendments shall be proposed by the Committee and submitted to the Board for consideration and approval.

**Article 63** Matters not covered by these terms of reference shall be handled in accordance with the requirements of relevant state laws and regulations, the Hong Kong Listing Rules and the Articles of Association; in case there is any inconsistency between these terms of reference and any future relevant state laws and regulations, the Hong Kong Listing Rules or the Articles of Association amended by lawful procedures, the relevant state laws and regulations, the Hong Kong Listing Rules and the Articles of Association shall prevail and these terms of reference shall be amended accordingly subject to the approval of the Board.

**Article 64** These terms of reference shall be interpreted by the Board.