

# Beijing Urban Construction Design & Development Group Co., Limited

## TERMS OF REFERENCE OF AUDIT AND RISK COMMITTEE UNDER THE BOARD OF DIRECTORS

### CHAPTER I GENERAL PROVISIONS

**Article 1** In order to strengthen the function of decision – making of the board of directors, incessantly improve the development of the internal control system of Beijing Urban Construction Design & Development Group Co., Limited (hereafter referred to as the “Company”), ensure the effective supervision over the senior management by the board of directors, improve the structure of corporate governance on an ongoing basis and improve the efficiency and the level of decision-making of the board of directors, the Company has set up an audit and risk committee under the board of directors and formulated these implementation rules in accordance with the relevant laws, regulations and regulatory documents, such as Company Law of the People’s Republic of China (hereafter referred to as the “**Company Law**”), and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereafter referred to as the “**Hong Kong Listing Rules**”), as well as the Articles of Association and the Terms of Reference of the Board Meetings of the Company.

**Article 2** The audit and risk committee under the board of directors is a specialized working organ set up by the board of directors. It is mainly responsible for the communication between the Company and the external auditors, the supervision over and examination of the external auditors, the control over the internal audit work, the assessment and optimization of the internal control and risk management systems of the Company, and the risk analysis on any significant investments being operated by the Company. The audit and risk committee is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company’s strategy objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems.

Senior management referred to herein includes general manager, deputy general manager, chief engineer, chief economist, chief accountant, chief planner, chief architect, secretary of the board and general counsel who are employed by the board of directors.

### CHAPTER II COMPOSITION

**Article 3** The audit and risk committee shall comprise three or more non-executive directors, among which the majority shall be independent non-executive directors. Members of the audit and risk committee shall meet the following requirements:

- (1) they shall have skills and experience useful for the Company’s business;
- (2) they shall have considerable financial knowledge;
- (3) at least one member in the audit and risk committee shall be an independent non-executive director with his expertise in accounting or relevant financial management as required by Hong Kong Listing Rules (including any amendment thereto) in respect of the qualification of finance professionals in the audit and risk committee.

**Article 4** Members of the audit and risk committee shall be nominated by the chairman of the board of directors or by the nomination committee, and elected by the majority of all directors in the board.

**Article 5** The audit and risk committee shall have one chairman to be acted by an independent non-executive director responsible for presiding over the work of the audit and risk committee. The chairman and members of the audit and risk committee shall be proposed by the chairman of the board of directors in consultation with the relevant directors, and shall take effect upon approval by the board of directors.

**Article 6** The term of office for a member of the audit and risk committee shall be concurrent with the term of his directorship, and can be reappointed upon re – election. A member shall be automatically disqualified if during his term of office he ceases to be a director or an independent non-executive director of the Company, and the vacancy shall be filled by the board of directors in accordance with Articles 3 to 5 above.

### **CHAPTER III TERMS OF REFERENCE**

**Article 7** The terms of reference of the audit and risk committee are as follows:

(1) scrutinize the Company's financial affairs;

(2) supervise material decisions;

(3) supervise the performance of duties by directors and senior management, and propose the removal of directors and senior management who have violated laws, administrative regulations or the Articles of Association;

(4) demand that directors and senior management rectify their actions where such actions damage the interests of the Company;

(5) propose the convening of an extraordinary meeting of the board of directors and a general meeting of shareholders;

(6) to make proposals to engage or replace its external auditing firm; to monitor, based on the applicable criteria, whether the external auditor is independent and objective and whether the auditing procedures are effective; to be responsible for the approval of the fees and engagement terms for the external auditor; to make and implement the policy about hiring the auditor to provide non-audit service;

(7) to supervise the internal audit system and its implementation for the Company, ensure the internal audit being performed with sufficient internal resources of the Company, and monitor the effectiveness of the internal audit function; to ensure the internal audit department carrying out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems;

(8) to be responsible for the communication between the internal auditing and the external auditing;

(9) to review the Company's financial information and its disclosure, and examine the Company's accounting practices and policies;

(10) to review the Company's internal control and risk management systems; to make comments and proposals on the soundness and perfectness of such systems; to make risk analysis on any significant investments being operated by the Company;

to oversee the Company's internal control and risk management systems on an ongoing basis, ensure that a review of the effectiveness of the Company's and its subsidiaries' internal control and risk management systems has been conducted at least annually in accordance with Article 9 herein (such review should cover all material controls, including financial, operational and compliance controls) and analyze major investigation findings on internal control and risk management matters (whether conducted by the audit and risk committee as delegated by the board of directors or on its own initiative) and the management's response to these findings;

to discuss with the management about the risk management and internal control systems, and ensure that the management has performed its duty to have effective risk management and internal control systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting function;

(11) to make comments and proposals on the appraisal and replacement for the head of the internal audit department of the Company;

(12) to review any letters issued by the external auditor to the management, including any material queries raised by the auditor in respect of accounting records, financial statements or internal control systems as well as the management's response;

(13) to review whether the mechanism allowing employees to report on or complain about, by way of whistleblowing, any misconduct in respect of the Company's financial reports, internal control or other matters is well established, and to ensure a proper arrangement of the Company which may enable fair and independent investigation and follow-up procedures for the case of whistleblowing;

(14) The audit and risk committee shall set up relevant procedures to deal with the following complaints:

1. to receive, keep and deal with complaints known to the Company about issues of accounting, internal control or audit;

2. to receive and deal with complaints or anonymous whistleblowing regarding issues of accounting or audit from employees, and ensure to keep them confidential;

(15) to liaise on a regular basis with the board of directors, senior management and the external auditor, and to meet at least twice a year by way of on-site meetings or by correspondence with the Company's external auditor;

(16) to perform other duties as required by applicable laws, regulations, the Articles of Association, relevant regulations of the securities regulatory authorities in the localities where the Company has its shares listed, and authorized by the board of directors.

**Article 8** The audit and risk committee shall be accountable to the board of directors. The committee shall submit proposals to the board of directors for consideration and decision.

**Article 9** The audit and risk committee's review of the Company's risk management and internal control systems should consider:

(1) the changes, since the last review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;

(2) the deliberation on the report prepared by the management on the effectiveness of risk management and internal control systems to be submitted to the board of directors, and the review on the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and the work of its internal audit function and other assurance providers;

(3) the extent and frequency of communication of monitoring results to the board of directors which enables it to assess control of the Company and the effectiveness of risk management;

(4) significant control failings or weaknesses that have been identified during the period, if any, 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 Company's financial performance or condition; and

(5) the review of the effectiveness of the Company's processes (including procedures and internal controls for the handling and dissemination of inside information) for financial reporting and Hong Kong Listing Rule compliance.

## CHAPTER IV WORKING PROCESS

**Article 10** The internal audit department is responsible for the preliminary preparation for resolutions of the audit and risk committee and providing relevant written information on the Company regarding:

1. relevant financial reports of the Company (including interim reports and annual reports);
2. management's analysis and report in respect of the implementation and supervision of risk management and internal control systems, and confirmation on the effectiveness of these systems;
3. work reports of internal audit department, including the analysis and appraisal of the adequacy and effectiveness of the risk management and internal control systems;
4. contracts for external auditing and relevant work reports;
5. public disclosure of information made by the Company;
6. audit reports regarding material connected transactions of the Company;
7. financial and legal materials regarding material investment projects;

8. report of accounting department regarding effectiveness of the accounting reporting procedures;
9. report of legal department regarding effectiveness of the compliance procedures;
10. other relevant materials.

**Article 11** The audit and risk committee shall make comments on any reports provided by the internal audit department, and submit relevant written resolution materials to the board of directors for discussion. The audit and risk committee shall consider any significant or unusual items that are, or may need to be, reflected in those financial reports and accounts, and shall give due consideration to any matters raised by the Company's chief accountant and external auditor, and focus particularly on:

1. any changes in accounting policies and practices;
2. issues requiring significant judgments;
3. significant adjustments resulting from the auditing;
4. assumptions and reserved opinions of continuous operation;
5. whether it complies with relevant governing accounting standards;
6. compliance with the applicable requirements of laws, regulations and Hong Kong Listing Rules in relation to financial reporting, including new rules published recently by professional and regulatory authorities, and their possible impacts on financial reporting.

## CHAPTER V RULES OF MEETINGS

**Article 12** Meetings of the audit and risk committee shall include the regular meeting and the extraordinary meeting and shall be held at least once every quarter.

The regular meeting shall be held at least twice a year. The audit and risk committee shall, in line with the timing of public announcements of interim reports and annual reports issued by the Company, hold a regular meeting of the audit and risk committee prior to each of the aforesaid announcements.

The extraordinary meeting shall be convened at the request of the board of directors, the chairman of the audit and risk committee, external auditors, internal auditors or at least more than half members of the audit and risk committee of the Company.

**Article 13** Regular and extraordinary meetings of the audit and risk committee may be convened by on-site meetings or communication means. The chairman of the audit and risk committee or, if he is absent, another member with independent non-executive directorship appointed by the chairman shall preside over the meetings.

**Article 14** The notice of regular meetings of the audit and risk committee shall be issued five days prior to the meeting whereas the notice of extraordinary meetings shall be issued three days before the meeting. In exceptional circumstances, if at least two-thirds of the members in the audit and risk committee do not object, the notices of meetings may be issued later than the above date.

**Article 15** The notice of meetings of the audit and risk committee shall at least include the following items:

- (1) the time and the venue of the meeting;
- (2) the duration of the meeting;
- (3) issues to be discussed in the meeting;
- (4) the contact person of the meeting and the way of contact;
- (5) the date of notice of the meeting.

The notice of meetings shall contain complete proposals.

**Article 16** The notice of meetings of the audit and risk committee shall be delivered to all members by facsimile transmission, electronic mail, telephone, hand or other means. When the notice is delivered by electronic mail, telephone or other speedy methods, the parties being notified shall be deemed to have received the notice of the meeting if no written objection is received from them within 2 days from the date of issuing the notice.

**Article 17** Meetings of the audit and risk committee shall be held by the attendance of more than two-thirds of the members of the committee.

**Article 18** Each member of the audit and risk committee has one vote. Resolutions adopted at the meetings shall take effect upon approval by the majority of all members (including those members who have not attended the meeting in person). In case of an equality of positive and negative votes, the chairman of the audit and risk committee shall have an extra vote and make decisions through the exercise of such voting right.

**Article 19** Members of the audit and risk committee may attend the meetings in person or by appointing other members as their proxies and exercise the voting right on their behalves. Each member shall appoint only one other member as his proxy to exercise the voting right on his behalf. If any member appoints two or more members to exercise the voting right on his behalf, such appointment shall be deemed invalid.

**Article 20** Any member who appoints another member to attend the meeting and exercise voting right on his behalf shall submit a power of attorney to the chairman of the meeting. The power of attorney shall be submitted to the chairman of the meeting no later than the voting of the meeting.

**Article 21** The power of attorney shall at least include the following items:

- (1) the name of the appointer;
- (2) the name of the proxy;
- (3) the content of the appointment;
- (4) instructions on the exercise of voting right over issues of the meeting (of voting for, against or abstaining) and, where no specific instruction is made, a statement as to whether the proxy may vote at his discretion;
- (5) the expiry date of the power of attorney;
- (6) the date of signing of the power of attorney.

The power of attorney shall be signed by both of the appointer and the proxy.

**Article 22** The means of voting on the meetings of the audit and risk committee shall be by a registered showing of hands. Provided that members may fully express their opinions, the extraordinary meetings may be convened by facsimile and telephone and may adopt resolutions by facsimile, which shall be signed by the present members. If voting by communication means is adopted, members of the committee who have signed on the meeting resolutions shall be deemed to have attended the relevant meeting and have agreed on the contents of the resolutions.

**Article 23** Directors of the Company who are not members of the audit and risk committee may, if invited, sit in on the meetings of the audit and risk committee. Also, the audit and risk committee may, if considering necessary, call other persons relating to the meeting proposals to sit in on the meetings, give a briefing or express their opinions. However, those who are not members of the committee have no voting right over the proposals.

**Article 24** The audit and risk committee may engage intermediaries to provide professional advice for its resolutions, if necessary, and the relevant expenses incurred shall be borne by the Company.

**Article 25** The procedures for convening the meeting, means of voting and resolutions passed at the meeting of the audit and risk committee shall comply with relevant laws, regulations, Hong Kong Listing Rules, the Articles of Association and the provisions of these Terms of Reference.

**Article 26** The audit and risk committee may appoint the secretary of the board of directors to handle the following routine work:

- (1) to issue notices of meetings and distribute meeting schedules and relevant supporting materials to members;
- (2) to take minutes, compile opinions of all members presenting at the meeting and deliver minutes to them for signing;

(3) to distribute minutes to members of the audit and risk committee within fourteen days after conclusion of the meeting.

Minutes of the audit and risk committee shall be maintained by the secretary of the board of directors of the Company.

**Article 27** Resolutions and voting results adopted at the meetings of the audit and risk committee shall be reported to the Company's board of directors in writing.

**Article 28** Members attending the meeting shall keep all matters discussed at the meeting confidential. Unauthorized disclosure of the relevant information shall be prohibited.

**Article 29** Where an issue relating to a member is to be discussed at the meeting of the audit and risk committee, such related member shall be excused from the meeting in respect thereof.

The meeting concerned shall be held by the majority of the unrelated members attending the meeting and resolutions adopted shall be passed by the majority of the unrelated members. Where the number of unrelated members attending the meeting falls below one-half of the total number of unrelated members of the audit and risk committee, such item shall be submitted to the board of directors' meeting for consideration.

## CHAPTER VI SUPPLEMENTARY PROVISIONS

**Article 30** In these Terms of Reference, the meaning of "no less than", "within", "no more than" includes the underlying number, while "more than", "less than", "lower than" does not include the underlying number.

**Article 31** These Terms of Reference shall come into effect and be implemented from the date of the Company's listing upon consideration and approval by the board of directors. These Terms of Reference shall be revised if necessary according to the changes of actual situations, drafts of amendments are put forward by the committee and submitted to the board of directors for approval.

**Article 32** Matters not provided for under these Terms of Reference shall be implemented in accordance with the provisions of relevant laws and regulations of China, Hong Kong Listing Rules and the Articles of Association. In case of any contradiction between these Terms of Reference and laws or regulations promulgated by China in future, Hong Kong Listing Rules, or the Articles of Association which are amended through legitimate procedures, the provisions of such laws and regulations of China, Hong Kong Listing Rules and the Articles of Association shall prevail, and these Terms of Reference shall be amended forthwith and submitted to the board of directors for consideration and approval.

**Article 33** These Terms of Reference are subject to the interpretation of the Board of Directors.