



IRICO

彩虹集團新能源股份有限公司

IRICO GROUP NEW ENERGY COMPANY LIMITED*

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

(Stock Code: 0438)

**Terms of Reference and Organizational Rules of the
Audit Committee of the Board of Directors of
IRICO GROUP NEW ENERGY COMPANY LIMITED**

- Article 1** In order to ensure the lawful performance of the duties, and strengthen financial oversight, risk management, and the internal control system of the Audit Committee of the Board of Directors of IRICO Group New Energy Company Limited* (the “**Company**”), these Terms of Reference and Organizational Rules (the “**Organizational Rules**”) for the Audit Committee (the “**Committee**”) of the Board of Directors of the Company are formulated in accordance with the Company Law of the People's Republic of China (the “**Company Law**”), the Rules Governing the Listing of Securities (the “**Listing Rules**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Articles of Association of the Company for compliance.
- Article 2** The Committee shall comprise of at least three members. All members of the Committee shall be non-executive directors and the majority shall be independent non-executive directors, and at least one independent non-executive director must have appropriate professional qualifications, or have the appropriate accounting or related financial management expertise (including but not limited to the experience of working as the practicing accountant or auditor, or as the chief financial officer or chief financial officer in a public company, or other similar experience, so that they have the experience of internal control as well as preparation or auditing of comparable financial statements, or analysis of public companies' audited financial statements). Chairman of the Committee shall be independent non-executive director.
- Article 3** The Company shall, in accordance with the requirements of the Committee, provide adequate resources for the Committee to fulfill its responsibilities.

- Article 4** Terms of reference of the Committee shall be in accordance with the provisions of the Organizational Rules, unless otherwise provided by law, the Listing Rules or the Articles of Association.
- Article 5** The Company shall put the content of the Organizational Rules at the websites of the Company and Stock Exchange, to prepare for the query. The aim is to disclose the terms of reference of the Committee and explain the Committee's role, responsibilities and the powers granted by the Board of Directors.
- Article 6** The Committee exercises the duties of the supervisory committee as stipulated in the Company Law.
- Article 7** The Committee is responsible for reviewing the Company's financial information and its disclosure, supervising and evaluating internal and external auditing work and internal control.
- Article 8** The Committee is authorized by the Board of Directors and has the following duties:
- (A) relationship with the auditor of the Company:
- (1) to be primarily responsible for making recommendations to the Board of Directors about the appointment, re-appointment and removal of external auditor, approving the remuneration and employment terms of the external auditor and dealing with any questions about the said auditor's resignation or the dismissal;
 - (2) to evaluate the work of external audit institution and supervise its independence, working procedures, quality and results, including to review and monitor its independence and objectivity and the effectiveness of the auditing procedures in accordance with certain applicable standards; the Committee shall, before the audit commences, discuss with the auditor about the nature and scope of the audit and relevant reporting obligations; and
 - (3) to develop and implement policies about the external auditor's provision of non-audit services. The Committee shall report to the Board of Directors any matters where action or improvement is needed and make recommendations.

- (B) to review the Company's financial information: review and supervise the integrity of the Company's financial statements and the annual reports and accounts and the half-year reports, and review major opinions related with the financial reporting contained in the statements and reports. Before the relevant statements and reports being submitted to the Board of Directors, the Committee shall particularly review the following matters:
- (1) any changes in accounting policies and practices;
 - (2) places concerning major judgments;
 - (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 legal requirements on financial reporting.

In respect of (B) above, the Committee is required:

- (1) to make contacts with the Board of Directors and senior management of the Company. The Committee shall meet the auditors of the Company at least twice a year; and
 - (2) to consider any significant or unusual matters 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 the Company's staff responsible for the accounting and financial reporting, compliance officer or auditors.
- (C) to supervise the Company's financial reporting system, risk management and internal control systems:
- (1) to review the Company's financial control, risk management and internal control system;

- (2) to discuss with the management of the Company (the “**Management**”) about the risk management and internal control system to ensure that the Management has fulfilled its duties to establish effective systems; the discussion shall cover the adequacy of the Company’s resources and staff qualification and experience related with accounting and financial reporting, as well as the adequacy of training programs received by employees and the relevant budget;
- (3) to research on the major investigation findings on risk management and internal control matters and the Management’s response to the investigation findings on its own initiative or under the commission of the Board of Directors;
- (4) to ensure that the work of the internal and external auditors coordinate with each other; to ensure that the internal audit function has adequate resources to function well and have the appropriate status within the Company; and to review, monitor and check the effectiveness of internal audit;
- (5) to review the Company’s financial and accounting policies and practices;
- (6) to review the Explanatory Letter of the Audit provided to the Management by the external auditor, any material queries raised by the auditor to the Management on the accounting records, the financial accounts or systems of supervision and control, as well as the Management’s response;
- (7) to ensure that the Board of Directors will provide a timely response to matters raised in the external auditor’s Explanatory Letter of the Audit to the Management;
- (8) to report to the Board of Directors on the matters set out in the Organizational Rules; and
- (9) to research on any other topics defined by the Board of Directors.

- (D) to review the following arrangements set up by the Company: employees of the Company can secretly raise concerns about the misconducts that may occur in financial reporting, internal control or other aspects. The Committee shall ensure appropriate arrangements to enable the Company to make fair and independent investigations on and take appropriate action against such matters;
- (E) to develop a whistleblowing policy and system that allows employees and others who have dealings with the Company (such as customers and suppliers) to secretly report to the Audit Committee their concern about any possible improper matters relevant to the Company; and
- (F) a former partner of the Company's existing auditing institution should be prohibited from acting as a member of the Committee for a period of two years from the date of the person ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.

Article 9 The following matters shall be submitted to the Board of Directors for deliberation only upon approval by more than half of all members of the Committee:

- (1) disclosure of financial information in financial accounting reports and periodic reports, and the internal control evaluation report;
- (2) appointment or dismissal of the accounting firm engaged for the Company's audit business;
- (3) changes in accounting policies or accounting estimates, or corrections of major accounting errors for reasons other than changes in accounting standards; and
- (4) other matters specified by laws, administrative regulations, the Listing Rules and the Articles of Association.

Article 10 As for the queries raised by employees about misconducts that may occur in financial reporting, risk management, internal control or other aspects, the Committee shall charge the Company to make fair and independent investigations on and take appropriate action against such matters.

- Article 11** Served as the main representative between the Company and the external auditor, the Committee shall be responsible for examining the relationship between the two.
- Article 12** The Committee shall check the external auditor's independence by means of the following procedures:
- (A) to research on all the relationships between the Company and the external auditor (including non-audit services);
 - (B) to obtain information from the external auditor annually, in order to understand the policies and procedures adopted by the external auditor to maintain independence and review the implementation of relevant provisions, including the existing provisions about the rotation of audit partners and staff; and
 - (C) to meet the external auditor at least once a year without the presence of the Management to discuss matters relating to audit fees, any matters caused by the audit and other matters the auditors want to raise.
- Article 13** The Committee shall ensure that the external auditor will not impair the independence or objectivity in the process of providing non-audit services. Independence or objectivity of the external auditor to provide non-audit services should be evaluated from following aspects:
- (A) whether it is suitable to provide such non-audit services for the Company, from the perspective of the ability and experience of the external auditor;
 - (B) whether there are safeguards to ensure that the non-audit services from the external auditor will not threaten the objectivity and independence of its audit services; and
 - (C) the nature of such non-audit services, the level of the relevant fee, as well as the level of the individual service cost and the total service cost in relation to the auditor.

- Article 14** The Committee may consider to develop the policy for the Company to employ the external auditor staff or former staff in line with the Board of Directors and check the application of the policy. The Committee shall thus consider whether relevant situations will impair or appear to impair the judgment or independence of auditors in the audit work. Where the Board of Directors disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reasons why the Board of Directors has taken a different view.
- Article 15** When the members of the Committee deal with matters within the terms of reference, they shall avoid the involvement initiatives, if they own an interest in these matters or if their involvement may be likely to damage the interests of the Company.
- Article 16** The complete minutes of meeting of the Committee shall be saved by the duly appointed secretary of the meeting (usually the Secretary of the Board of Directors). Draft and final versions of the minutes should be sent to the Committee members within a reasonable time after the meeting (the draft version for comments and the final version for records).
- Article 17** The Committee shall meet at least twice a year, and may convene a meeting at any time when it is needed.
- Article 18** The Committee shall, if necessary, invite members of Management to attend the meeting and provide relevant information.
- Article 19** If the Chairman of the Committee is on leave, unable to convene meetings for good reasons or required to avoid the involvement pursuant to Article 15, the other independent non-executive directors of the Committee designated by the Chairman shall perform the role; in case of no designated agent by the Chairman, one independent non-executive director shall be elected by the other members of the Committee to perform the role. The convening notice of the Committee shall contain the subject matter and shall be served to its members seven days in advance. But in case of emergency situations, there is no such limitation.
- Article 20** The meeting agenda of the Committee shall be prepared by the Chairman, who may also provide motions for the Committee to discuss.

- Article 21** Except otherwise provided by the law, the Listing Rules or the Articles of Association, the resolution of the Committee shall be reached when more than two-thirds of the members of the Committee attend the meeting and the majority of the members present approve. In the process of voting, it shall be deemed adopted, if no objection is shown when consulted by the Chairman of the Committee, with the same effectiveness of affirmative votes.
- Article 22** The resolution of the Committee shall form minutes of meeting, signed by the directors present at the meeting and the recorder, and the minutes shall be distributed to the members of the Committee within twenty days after the meeting and also submitted to the Board of Directors.
- Article 23** The minutes of meetings shall contain the information of the year, month, day, place or method, the name of the Chairman, resolution procedure, the essentials and the results of proceedings, which shall be saved for more than five years.
- Article 24** The Committee members shall faithfully fulfill the duties provided hereby, be responsible to the Board of Directors and submitted motions to the Board of Directors for consideration.
- Article 25** The implementation of the Committee's resolutions shall be granted to the Chairman or the other members of the Committee, with written or oral reports submitted to the Committee during the execution.
- Article 26** The Organizational Rules shall be implemented after the consideration and approval of the Board of Directors, so shall its revision.