

*Chinese versions of these rules of procedures shall prevail in case of discrepancies or inconsistencies*



中國中鐵股份有限公司  
**CHINA RAILWAY GROUP LIMITED**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 390)**

**RULES OF PROCEDURES FOR THE AUDIT AND RISK MANAGEMENT  
COMMITTEE OF THE BOARD OF DIRECTORS**  
**(Amended in December 2015)**

**Chapter 1 General Provisions**

**Article 1** In order to establish and regulate the audit systems and procedures of China Railway Group Limited (the “**Company**”), ensure the effective management in areas including financial reporting, risk management and internal control, and refine the structure of corporate governance of the Company, in accordance with the Company Law of the People’s Republic of China, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”), the Articles of Association of China Railway Group Limited (the “**Articles**”), the Rules of Procedures for the Board of Directors of China Railway Group Limited (the “**Rules of Procedures of the Board**”) and other relevant provisions, the board of directors has established the Audit and Risk Management Committee (the “**Committee**”) and formulated these Rules of Procedures.

**Article 2** The Committee is a special work organisation under the board of directors to provides recommendations and advice to the board of directors for its decision making on relevant matters and shall be accountable and report to the board of directors.

**Article 3** These Rules of Procedures apply to the Committee and the personnel and departments referred to in these Rules of Procedures.

**Chapter 2 Composition of the Committee**

**Article 4** The Committee shall comprise of at least three directors, all of whom must be non-executive directors. The majority of the Committee members shall be independent non-executive directors, at least one of whom shall have appropriate professional qualifications or accounting or related financial management expertise. The members of the Committee shall be nominated by the chairman of the board of directors and considered and approved by the board of directors.

**Article 5** The Committee shall have one chairman, which role shall be assumed by an independent non-executive director. The chairman of the Committee shall be nominated by the chairman of the board of directors and appointed by the board of directors.

**Article 6** The term of office of the Committee shall be in conformity with that of the board of directors of the same session. The term of office of the Committee members shall be in conformity with that of their directorship. At the expiration of the term of office, they could be re-elected and re-appointed. During the term of office, if any Committee member no longer acts as a director of the Company, he or she shall cease to hold such Committee membership automatically.

**Article 7** A Committee member may submit resignation to the board of directors prior to the expiration of his/her term of office. Such resignation shall specify the reasons for the resignation and any matters which would require the attention of the board of directors.

**Article 8** Changes to the members of the Committee may be made during their term of office by the board of directors as and when proposed by the chairman of the board of directors and approved by the board of directors after their discussion.

**Article 9** When the number of Committee members falls below the required number of the Committee members under these Rules of Procedures, the board of directors shall appoint additional members to the Committee in accordance with these Rules of Procedures to fill the vacancies.

### **Chapter 3 Duties and Functions of the Committee**

**Article 10** The major duties and functions of the Committee shall be:

- (1) To make proposals to the board of directors regarding appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and handle any questions of its resignation or dismissal;
- (2) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable accounting standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (3) To develop and implement policy on engaging an external auditor to provide non-audit services. For the purpose of this provision, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit and Risk Management Committee should report to the board of directors, identifying and making recommendations on any matters where action or improvement is needed;
- (4) To monitor integrity of the financial statements, annual report and accounts, half-year report and quarterly reports of the Company, and to review significant financial reporting issues contained in them. The Committee should focus particularly on the following matters when reviewing the reports before submission to the board of directors:

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 qualified opinions;
  5. Compliance with accounting standards;
  6. Compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting.
- (5) Regarding Item 4 above,
1. The Committee members should liaise with the board of directors and the senior management. The Committee must meet at least twice a year with the external auditor of the Company; and
  2. The Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or the auditors.
- (6) To review the Company's financial controls, risk management and internal control systems; to supervise the effective implementation of the internal control and self-assessment of internal control, coordinate internal control, audit and other related matters; regarding this item:
1. The Committee shall, with the assistance of risk management personnel and internal auditors, conduct a review at least annually of the effectiveness of the Company's and its subsidiaries' risk management and internal control systems.
  2. The Committee shall in the Corporate Governance Report disclose that it has received a confirmation from management on the effectiveness of the Company's risk management and internal control systems, report to shareholders on how often the risk management and internal control systems are reviewed and period covered, and make a statement that a review of the effectiveness of the risk management and internal control systems has been conducted and whether the Company considers them effective and adequate.

3. The review shall cover all material control, including financial, operational, and compliance controls. The Committee's annual review should, in particular, consider
  - (1) the changes, since the last annual 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 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 Committee 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. Also, 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 effectiveness of the Company's processes for financial reporting and Hong Kong Listing Rule compliance.
- (7) To discuss the risk management and internal control systems with management and to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (8) To consider major investigation findings on risk management and internal control matters as delegated by the board of directors or on its own initiative and management's response to these findings;
- (9) 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 its effectiveness and report in the Corporate Governance Report on how it met its responsibilities in its review of the effectiveness of the Company's internal audit function;
- (10) To review the financial and accounting policies and practices of the Company and the group;
- (11) To review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

- (12) To ensure that the board of directors will provide a timely response to the issues raised in the external auditor's management letter;
- (13) To report to the board of directors on the matters in these Rules of Procedures;
- (14) To consider other topics, as defined by the board of directors;
- (15) To be responsible for the control and daily management of the connected transactions of the Company; to be responsible for ascertaining the list of connected persons. To review the connected transactions and prepare the written report for the review by the board of directors and report to the board of supervisors for connected transactions proposed to be entered into between the Company and the connected persons;
- (16) To review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (17) To act as the key representative body for overseeing the Company's relations with the external auditor; and
- (18) Other functions delegated by the board of directors.

**Article 11** Duties and Functions of the Chairman of the Committee:

- (1) To convene and preside over meetings of the Committee;
- (2) To supervise and inspect the work of the Committee;
- (3) To sign relevant documents of the Committee;
- (4) To report the work of the Committee to the board of directors;
- (5) Other duties required by the board of directors to be performed by the chairman of the Committee.

**Chapter 4 Meetings of the Committee**

**Article 12** The Committee may convene meetings from time to time as necessary. In any of the following circumstances, within 7 days of the occurrence of the relevant fact, the chairman of the Committee shall issue a notice to convene a meeting:

- (1) in circumstances as deemed necessary by the board of directors;
- (2) in circumstances as deemed necessary by the chairman of the Committee;
- (3) when proposed by two or more members of the Committee.

**Article 13** The office of the board of directors shall be responsible for delivering the notice of meeting in writing to each Committee member and relevant person invited to attend the meeting 3 days prior to the date of the meeting. The notice of meeting shall contain information on the method, time, venue, duration and agenda of the meeting, time of issuance of the notice and other relevant information.

**Article 14** Upon receipt of the notice, each Committee member shall provide confirmation and any relevant feedback via a proper means (including but not limited to confirmation of attendance or absence and any other arrangement) in a timely manner.

**Article 15** The members of the Committee shall attend the meeting in person. If a member is unable to attend the meeting in person, such member shall, by signing and submitting a letter of proxy, authorise another member of the Committee to attend and express opinion at the meeting on his/her behalf. Such letter of proxy shall expressly state the scope and term of the authorisation. No member shall accept any such authorisation from two or more other members concurrently.

The member attending meeting on behalf of another member shall exercise the rights within the scope of authorisation. If a member does not attend a meeting in person or authorise another member to attend such meeting on his/her behalf, nor does he/she submit any opinion in writing prior to the meeting, he/she shall be deemed to have waived his/her rights.

A member who is unable to attend a meeting in person may also exercise his/her rights by submitting in writing his/her opinion with respect to any matter on the meeting agenda, provided that such written opinion shall be submitted to the office of the board of directors no later than the meeting.

**Article 16** If any member does not attend a meeting in person or authorise another member to attend such meeting on his/her behalf, nor does he/she submit any opinion in writing prior to the meeting on two consecutive occasions, or if such member fails to attend in person 3/4 of all meetings of the Committee held during any year, such member shall be deemed incapable of performing the duties of the Committee, and the board of directors may change the members of the Committee in accordance with these Rules of Procedures.

**Article 17** A meeting of the Committee shall be held only when it is attended by at least two members of the Committee. A meeting shall be presided over by the chairman of the Committee, who may appoint another member to do so on his/her behalf when he/she is unable to attend the meeting.

**Article 18** The agenda items shall be discussed during the meeting of the Committee. The members of the Committee shall explicitly, independently and fully express their opinion based on their judgement. In the case of any different opinion, such different opinion shall be stated in the meeting minutes to be presented to the board of directors.

**Article 19** In general, the Committee shall physically meet on site to hold a meeting. Under special circumstances, on the condition that it is assured that the members of the Committee are able to sufficiently express their opinion, with the consent of the chairman of the Committee, meetings may be held by means of remote communication. If a meeting is held by means of remote communication, the Committee members shall submit to the board of directors their written opinion with respect to the matters on the agenda within the period prescribed by the notice of the meeting.

**Article 20** Where necessary, the Committee may invite directors, senior management personnel and relevant experts of the Company, external experts, scholars, intermediary agencies and other relevant personnel to attend the meeting without voting rights. Such personnel invited to attend the meeting shall give explanation and statement as required by any Committee member.

**Article 21** If a member of the Committee is interested in any matter being considered by the Committee, such member shall refrain from the consideration of such matter.

**Article 22** All personnel attending the meeting shall have the obligation to keep all matters discussed at the meeting confidential and shall not disclose any information relating thereto without authorisation.

## **Chapter 5 Work Organisation of the Committee**

**Article 23** The secretary to the board of directors of the Company shall be responsible for organising and coordinating the work between the Committee and other relevant departments.

The secretary to the board of directors shall attend the meetings of the Committee without voting rights.

**Article 24** The office of the board of directors of the Company shall coordinate with other relevant departments of the Company to facilitate the effective implementation of relevant work of the Committee.

**Article 25** The office of the board of directors of the Company shall be responsible for organising meetings of the Committee such as preparing and issuing the notice of meeting.

The audit, financial and legal departments of the Company shall be responsible for preparing and providing relevant materials required for the consideration of the matters on the agenda and for liaising with relevant departments (including the relevant experts of the Company or external experts, scholars and intermediary agencies appointed during the course of the consideration by the Committee of relevant matters).

The audit, financial and legal departments of the Company shall be responsible for formulating the working systems and procedures for the provision of relevant services to the Committee in accordance with the scope of duties and functions of the Committee and which shall be filed with the board of directors.

The relevant functional departments of the Company shall be responsible for providing services for the work of the Committee and to provide support and collaboration for the work of the office of the board of directors and the audit, financial and legal departments.

## **Chapter 6 Record and Minutes of the Meetings of the Committee**

**Article 26** Meeting record shall be prepared for the meetings of the Committee. The meeting record shall be prepared by the office of the board of directors, which shall include the following information:

- (1) Serial number, method, date, venue, and name of the chairman, of the meeting;
- (2) The attendance of members personally or by proxy;
- (3) Name and title of each attendee;
- (4) Matters to be considered at the meeting;
- (5) Main points made by the Committee members or other relevant attendees;
- (6) Name of the person keeping the record.

The Committee members and the secretary to the board of directors present at the meeting shall sign the record of the meeting of the Committee. The meeting record shall be delivered to all members of the Committee within a reasonable time after the meeting so that they can express their opinion on the content of the minutes.

**Article 27** After the meeting of the Committee, the office of the board of directors of the Company shall prepare a meeting minutes based on the status of the consideration and discussions at the meeting.

The meeting minutes shall be submitted to the board of directors of the Company and the members of the Committee, secretary to the board of directors, the office of the board of directors and the audit, financial and legal departments of the Company and other relevant departments and personnel.

**Article 28** Meeting record, meeting minutes, letters of proxy, written opinion of the members of the Committee and other meeting materials derived from the meetings of the Committee shall be kept on file by the Company secretary in accordance with the filing management procedures of the Company.

## **Chapter 7 Supplementary Provisions**

**Article 29** Unless otherwise stated, the terms used in these Rules of Procedures shall have the same meanings ascribed to them in the Articles.

**Article 30** For any matter not covered in these Rules of Procedures, or in the event of any conflict with any provisions of the laws, regulations, listing rules of the place where the Company is listed, the Articles or the Rules of Procedures of the Board promulgated or amended after these Rules of Procedures become effective, the provisions of such laws, regulations, listing rules of the place where the Company is listed, Articles or Rules of Procedures of the Board, such provisions shall prevail in resolving such conflict.

**Article 31** These Rules of Procedures and their amendments shall become effective from the date on which the same shall be approved by the general resolution of the board of directors of the Company.

**Article 32** The board of directors of the Company shall have the right to interpret these Rules of Procedures.