



**Changsha Broad Homes Industrial Group Co., Ltd.**  
**長沙遠大住宅工業集團股份有限公司**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 2163)**

**Changsha Broad Homes Industrial Group Co., Ltd.**

**Terms of Reference of the Audit Committee of the Board of Directors**

**Chapter 1 General Provisions**

- Article 1 In order to establish and regulate the audit system and procedures of Changsha Broad Homes Industrial Group Co., Ltd. (the “**Company**”), strengthen the decision-making functions of the board of directors (the “**Board**”), ensure the Board’s effective supervision of the management and improve the corporate governance structure, the Company has established the audit committee (the “**Committee**”) of the Board of the Company and formulated these terms of reference in accordance with the Company Law of the People’s Republic of China, the Code of Corporate Governance for Listed Companies, 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 Changsha Broad Homes Industrial Group Co., Ltd. (the “**Articles of Association**”), the Rules of Procedures for the Board of Directors of Changsha Broad Homes Industrial Group Co., Ltd. and other relevant laws, regulations and regulatory documents.
- Article 2 The Committee is a special executive body under the Board and is mainly responsible for the communications between internal and external auditors and their supervision and inspection, as well as the risk management and internal control of the Company. The Committee shall be accountable to the Board and report to the Board. The Committee may, when deemed necessary and according to the authorization of the Board, consult an external expert for professional advice, and the reasonable costs incurred therefrom shall be borne by the Company, provided that the Company’s trade secrets are not disclosed.
- Article 3 These terms of reference are applicable to the Committee and relevant personnel and departments involved in these terms of reference.

## Chapter 2 Composition and Organization of the Committee

- Article 4            The Committee shall consist of no less than three directors. All members shall be non-executive directors, and the majority of whom shall be independent non-executive directors. The members of the Committee shall have professional financial or legal expertise and business experience in line with their duties, and at least one member, who shall be an independent non-executive director, shall have appropriate professional qualifications or appropriate accounting or related financial management expertise in compliance with the requirements of the Hong Kong Listing Rules for financial professionals in an audit committee. A former partner of the external audit firm currently responsible for auditing the Company's accounts shall be prohibited from serving as a member of the Committee for a period of two years since the date on which he/she ceases to be a partner of the external audit firm or to have any financial interest in the external audit firm, whichever is later.
- Article 5            Members of the Committee shall be nominated by the chairman of the Board for election by the Board and those nominees receiving affirmative votes from more than fifty percent of all directors shall be duly elected.
- Article 6            The Committee shall have one chairman who shall be an independent non-executive director and shall oversee the operation of the Committee. The chairman shall be nominated by the chairman of the Board of the Company and his/her appointment shall be considered and approved by the Board. The chairman of the Committee shall have appropriate accounting or related financial accounting expertise.
- Article 7            The term of office of the Committee is the same as that of the corresponding session of the Board, and the terms of office of the members of the Committee are the same as that of the directors. Members may be re-elected when their terms of office expire. Where any member of the Committee, during his/her term of office, ceases to serve as a director of the Company or loses his/her independence as an independent non-executive director as required by the Hong Kong Listing Rules, he/she shall be disqualified as a member automatically.
- Article 8            Members of the Committee may tender their resignations to the Board before the expiration of their terms of office. To resign, members of the Committee shall submit a resignation report to the Board and describe the reasons for his/her resignation and matters needed to be concerned by the Board of the Company therein. If the number of members of the Committee falls below the minimum number as provided herein, the resigned member shall continue to perform the relevant duties until an alternate member of the Board takes office.
- Article 9            The members of the Committee may be changed within their terms of office if proposed by the chairman of the Board and approved upon consideration by the Board.

- Article 10 A member of the Committee may hold membership of other special committees under the Board provided that he/she is able to perform his/her duties.
- Article 11 If the number or composition of members of the Committee fails to meet the requirements as provided herein, the Board shall arrange for making up the shortfall in accordance with the provisions in these terms of reference or the Articles of Association.
- Article 12 With the coordination of the office of the Board, the audit department of the Company, acting as the Committee's executive body, shall provide supports and services to the Committee and take on any job assigned by the Committee.

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

Article 13 The Committee, on behalf of the Board, shall conduct independent assessment and supervision on the compliance, legality and efficiency of the Company's operating activities. The major duties and functions of the Committee shall be:

- (1) To make recommendations to the Board regarding the appointment, re-appointment and removal of the external audit firm, and to approve the remuneration and terms of engagement of the external audit firm, and handle any question of its resignation or dismissal;
- (2) To review and monitor the external audit firm's independence, objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the audit firm the nature, scope and method of the audit and the relevant reporting obligations before the audit commences.

For the purpose of investigating the independence of the external audit firms, the Committee shall complete the following tasks: examine the relationships between the Company and the audit firm (including non-audit services); examine materials provided by the audit firm each year so as to be informed of the policies and procedures adopted by the audit firm for ensuring its independence and monitoring the enforcements of relevant rules, including rules for change of partners and executives of the audit firm; meet with the external audit firm at least once each year without the presence of the management for the purpose of discussing audit fees and related matters, any matter in connection with audit tasks and other matters raised by the audit firm;

- (3) To develop and implement policy on engaging an external audit firm to provide non-audit services. For the purpose of this provision, external audit firms include 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 Committee should report to the Board on any action or improvement which they deem necessary and make recommendations on steps that can be taken;

- (4) To monitor the truthfulness, completeness and accuracy of the financial statements, annual reports and accounts, half-year reports and quarterly reports (if any) of the Company, and to review significant financial reporting opinions contained therein. Special attention should be paid to the risk of frauds, corrupt practices and major mistakes in relation to financial statements and reports. When reviewing the Company's annual reports and accounts, half-year reports and quarterly reports before submission of the same to the Board, the Committee should focus particularly on the following matters:
  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 opinion;
  5. Compliance with accounting standards;
  6. Compliance with the Hong Kong Listing Rules and other legal requirements in relation to financial reporting;
- (5) Regarding Item (4) above:
  1. Members of the Committee should liaise with the Board and the senior management of the Company. The Committee must meet at least twice a year with the external audit firm of the Company;
  2. The Committee should consider any significant or unusual item that is, or may need to be, reflected in such reports and accounts, and should give due consideration to any matter that has been raised by the staff responsible for the accounting and financial reporting function, the compliance officer or the audit firm of the Company;
- (6) To examine the Company's financial controls, internal control and risk management systems;
- (7) To discuss the risk management and internal control system with the management to ensure that the management has performed its duty to have an effective risk management and internal control system, and considerations should be given to, among others, the adequacy of resources, staff qualifications and experience, training programs and budgets of the Company's accounting and financial reporting function; to supervise the effective implementation of internal control and self-assessment of internal control, coordinate internal control and audit as well as procure the rectification of any internal control defect and other related matter;

- (8) To consider major investigation findings on risk management and internal control matters and management's response to these findings on its own initiative or as delegated by the Board;
- (9) To be responsible for the communication between the internal audit department and external audit firm in order to ensure coordination between the internal audit department and external audit firm, to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- (10) To review the financial and accounting policies and practices of the Company;
- (11) To review the statement letter of auditing results addressed to the management by the external audit firm, major concerns brought up by the audit firm regarding the accounting records, financial account or supervision system and the management's response to them;
- (12) To ensure that the Board will provide a timely response to the issues raised in the statement letter of auditing results addressed to the management by the external audit firm;
- (13) To review arrangements that 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 the Company to conduct fair and independent investigation of these matters and to take appropriate follow-up action;
- (14) To act as the key representative body for overseeing the Company's relationship with the external audit firm;
- (15) To review the Company's risk management strategies and solutions for key risk management issues;
- (16) To confirm the list of the Company's connected parties, conduct an overall review of connected transactions and regular inquiries of the overall state of connected transactions, which include a review of the decisions and implementation of all connected transactions of the Company within ten days following the end of each half-year period, and a review of the overall state of all connected transactions of the Company within thirty days following the end of each half-year period. The Committee shall report to the Board and the supervisory committee the results of such reviews;
- (17) To report the matters mentioned in these terms of reference to the Board;

- (18) To carry out other matters as authorized by the Board of the Company and other matters in connection with relevant laws and regulations;
- (19) Other relevant requirements for duties and functions of the Committee according to the listing rules of the places where the securities of the Company are listed, including the Hong Kong Listing Rules, as amended from time to time.

Article 14           The duties and functions of the chairman of the Committee shall be:

- (1) To convene and preside over meetings of the Committee;
- (2) To supervise and examine the work of the Committee and the implementation of the resolutions of the Committee;
- (3) To sign relevant documents of the Committee;
- (4) To report the work of the Committee to the Board of the Company;
- (5) To attend the annual general meeting (if the chairman of the Committee is unable to attend, another member of the Committee shall attend, or if such member is unable to attend, an appropriately appointed representative shall attend) and answer questions concerning the work and responsibilities of the Committee at the meeting;
- (6) Other duties and functions as stipulated in the laws, regulations, relevant administrative regulations of the places where the shares of the Company are listed, including the Hong Kong Listing Rules, these terms of reference and as required or delegated by the Board.

Article 15           The major duties and functions of the members shall be:

- (1) To attend the meetings of the Committee on time and to express opinions on the matters deliberated at the meetings and exercise their voting rights;
- (2) To propose matters to be deliberated at the meetings of the Committee;
- (3) To attend relevant meetings of the Company as non-voting delegates or visitors, to conduct surveys and researches and to collect relevant information such as reports, documents and materials for the purpose of discharging their duties and functions;
- (4) To fully understand the duties and functions of the Committee and those of himself/herself as a member of the Committee and to acquaint himself/herself with relevant information on the operation and management, business activities and development of the Company to ensure his/her capacity for discharging duties and functions;



- (5) To fully ensure that he/she has sufficient working hours and energy to fulfil his/her duties and functions;
- (6) Other duties and functions as stipulated in the laws, regulations, relevant administrative regulations of the places where the shares of the Company are listed, including the Hong Kong Listing Rules, and these terms of reference and as delegated by the Board.

## **Chapter 4 Meetings of the Committee**

- Article 16 Meetings of the Committee can be classified as regular meeting and extraordinary meeting.
- Article 17 The Committee shall convene at least two regular meetings every year and shall issue a three-day prior written notice to all members.
- Article 18 The Committee may convene extraordinary meetings when necessary. In any of the following circumstances, within three days of the occurrence of the relevant facts, the chairman of the Committee shall issue a notice to convene a meeting:
- (1) in circumstances as deemed necessary by the Board;
  - (2) in circumstances as deemed necessary by the chairman of the Committee;
  - (3) when proposed by two or more members of the Committee.
- Article 19 The audit department shall be responsible for delivering the notice of meeting in writing to each member of the Committee and relevant persons invited to attend the meeting three days prior to the date of the meeting (except in special circumstances where the obligation of advance notice may be exempted, but the chairperson of the meeting shall make an explanation at 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, contact person of the meeting, contact method and relevant information.
- The audit, finance and legal departments and the office of the Board of the Company shall prepare and furnish the Committee with relevant materials related to the matters to be deliberated, and liaise with relevant entities concerned (including relevant experts of the Company or external experts, scholars and intermediary agencies engaged by the Committee).
- Article 20 Upon receipt of the notice of meeting, each member of the Committee shall provide confirmation and any relevant feedback (including but not limited to confirmation of attendance or absence and any other arrangement) via proper means in a timely manner.

Article 21           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, authorize another member of the Committee to attend and express opinions at the meeting on his/her behalf. Such letter of proxy shall expressly state the scope and term of the authorization. Each member shall appoint only one other member as his/her proxy to vote on his/her behalf at each meeting. Where any member appoints two or more members to vote on his/her behalf, such appointment shall be deemed invalid. No member shall accept any such authorization from two or more other members concurrently.

The member attending the meeting on behalf of another member shall exercise the rights within the scope of authorization. If a member does not attend a meeting in person or authorize 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 audit department no later than the meeting.

Article 22           If any member of the Committee does not attend a meeting of the Committee in person or authorize another member of the Committee 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 three-quarters 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 may change the members of the Committee in accordance with these terms of reference.

Article 23           A meeting of the Committee may only be validly held when at least two-thirds of all members attend the meeting. A meeting shall be presided over by the chairman of the Committee, who may appoint another member of the Committee to do so on his/her behalf when he/she is unable to attend the meeting. In the circumstances where the chairman of the Committee neither fulfils his/her duties nor delegates his/her duties to another member of the Committee, any member of the Committee may report such circumstances to the Board of the Company and the Board of the Company shall appoint one member of independent non-executive directors to perform the chairman's duties.



## **Chapter 5 Procedures of Meetings**

- Article 24 Each member of the Committee shall have one vote. More than half of the votes of all members are required to pass a resolution. Where the Committee is unable to form a valid resolution due to the abstention of members, such matter shall be submitted to the Board for consideration.
- Article 25 In general, the Committee shall physically meet on site to hold a meeting. Method of voting shall be show of hands or poll. Under special circumstances, on the premise that the members of the Committee are able to sufficiently express their opinions, with the consent of the chairman of the Committee, meetings may be held by means of remote communication. Where a meeting is conducted by means of remote communication, the members of the Committee shall submit to the Board their written opinions with respect to the agenda items within the period prescribed by the notice of the meeting.
- Article 26 The agenda items shall be discussed during the meeting of the Committee. The members of the Committee shall explicitly, independently and fully express their opinions based on their judgment. In the case of any different opinion, such different opinion shall be stated in the minutes of the meeting to be presented to the Board.
- Article 27 The Committee may invite directors of the Company, relevant senior management, relevant experts of the Company or external experts, scholars, intermediary agencies and other relevant personnel to attend the meeting. Such personnel invited to attend the meeting shall give explanation and elaboration on any issue as required by any member of the Committee.
- Article 28 The Committee may, when deemed necessary and approved by the Board, appoint an external professional or agency to provide professional advice, and the reasonable costs incurred therefrom shall be borne by the Company.
- Article 29 If a member of the Committee is interested in any matter being considered by the Committee, such member shall refrain from the discussion and decision of such matter.
- Article 30 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 authorization.

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

- Article 31 Minutes shall be prepared for the meetings of the Committee. The minutes shall be prepared by the audit department, and shall include the following information:
- (1) Serial number, method, date, venue and name of the chairperson of the meeting;
  - (2) The attendance of members personally or by proxy;
  - (3) Name and title of each attendee;
  - (4) Matters considered at the meeting;
  - (5) Main points made by the members of the Committee and other relevant attendees;
  - (6) Name of the person taking minutes;
  - (7) The minutes or resolutions of meetings shall specify the abstention of interested member(s) (where applicable).

The members of the Committee present at the meeting shall sign the minutes of the meeting of the Committee. The minutes shall be sent to all members of the Committee within a reasonable time after the meeting for their comments.

- Article 32 After each meeting of the Committee, the audit department shall prepare a meeting summary recording the considerations and discussions during the meeting.

Copies of the meeting summary shall be submitted to the Board of the Company and sent to the members of the Committee, secretary to the Board, the audit, finance and legal departments of the Company and other relevant departments and personnel.

- Article 33 Meeting minutes, meeting summary, letters of proxy, written opinions of the members of the Committee and other materials of the meeting shall be handled by the office of the Board in accordance with the relevant file management system of the Company.

## **Chapter 7 Supplementary Provisions**

- Article 34 Unless otherwise stated, terms used in these terms of reference shall have the same meanings ascribed to them in the Articles of Association.
- Article 35 For any matter not covered in these terms of reference, and in the event of any contradiction with any provision of the laws, administrative regulations, regulatory documents, relevant administrative regulations of the places where the shares of the Company are listed, including the Hong Kong Listing Rules, or the Articles of Association as amended under lawful procedures promulgated after these terms of reference become effective, the provisions of such laws, administrative regulations, regulatory documents, relevant administrative regulations of the places where the shares of the Company are listed, including the Hong Kong Listing Rules, and the Articles of Association shall prevail. Amendments to these terms of reference shall be made forthwith and submitted to the Board for consideration and approval.
- Article 36 These terms of reference shall be passed upon consideration and approval by the Board and become effective on the date of listing of the overseas-listed foreign shares of the Company on The Stock Exchange of Hong Kong Limited.
- Article 37 The right of interpretation and amendment of these terms of reference rests with the Board of the Company.
- Article 38 These terms of reference are available in both Chinese and English versions. In case of inconsistencies between the two versions, the Chinese version shall prevail.