



China Railway Signal & Communication Corporation Limited*
中國鐵路通信信號股份有限公司

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

(Stock Code: 3969)

**Terms of Reference of the Audit and Risk Management Committee
under the Board of Directors of China Railway Signal & Communication
Corporation Limited**

CHAPTER 1 GENERAL PROVISIONS

Article 1 In order to perfect the decision-making procedures of the Board of China Railway Signal & Communication Corporation Limited (the “**Company**”), fully safeguard the legal interests of the Company and its shareholders, and improve the corporate governance structure of the Company, the Board of Directors of the Company has established the Audit and Risk Management Committee and promulgated these terms of references in accordance with the *PRC Company Law*, the *Standards on Corporate Governance of Listed Companies* (上市公司治理準則) issued by the China Securities Regulatory Commission, the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* (hereinafter referred to as the “**HKEx Listing Rules**”), *Guideline on Comprehensive Risk of Central Enterprises promulgated by the State-owned Assets Supervision and Administration Commission of the State Council* (the “**Guideline on Comprehensive Risk of Central Enterprises**”) (中央企業全面風險指引) and the *Articles of Association of China Railway Signal & Communication Corporation Limited* (hereinafter referred to as the “**Articles**”) and other relevant rules.

Article 2 The Audit and Risk Management Committee is a special working body set up by the Board of Directors pursuant to the Articles. Its principal duties are to advise on the engagement and replacement of the external audit firms, supervise the internal audit system of the Company, to communicate, supervise and verify internal and external audit of the Company, to review financial information and its disclosure, to review risk management and internal system, to review risk management strategies and solutions of the Company, to control, manage, supervise and evaluate the risk of major decisions, major events and major business procedures.

* *For identification only.*

CHAPTER 2 COMPOSITION AND ORGANIZATION

Article 3 The Audit and Risk Management Committee shall comprise three non-executive directors, the majority of which shall be independent non-executive directors, and at least one of which shall possess professional accountant qualifications or appropriate accounting or relevant financial management expertise. Members of the Committee shall be recommended by the Chairman of the Board of Directors after discussion with relevant directors subject to consideration and approval by the Board of Directors.

Article 4 The Audit and Risk Management Committee shall have one chairman who shall be an independent non-executive director in charge of the work of the Committee. The chairman shall be nominated by the Chairman of the Board of Directors and appointed by the Board of Directors. The main powers and duties of the chairman are as follows:

- (i) convening and presiding over regular and ad-hoc meetings of the Committee;
- (ii) determining the procedures of each meeting of the Committee;
- (iii) signing material documentation of the Committee;
- (iv) ensuring that the Committee reaches a clear conclusion to each proposal which includes passed, rejected and supplementary materials needed;
- (v) other powers and duties provided in these terms of reference.

Article 5 All members of the Audit and Risk Management Committee shall possess the expertise and business experience enabling them to fulfil the duties of the Audit and Risk Management Committee. The Company shall arrange members of the Audit and Risk Management Committee to participate in related trainings to timely obtain expertise required for discharge of their duties in respect of laws, accounting, and regulation standards of listed companies.

Article 6 The terms of office of the members of the Audit and Risk Management Committee shall be in conformity with that of their directorship. Members of the Committee may be re-elected or re-appointed at the expiry of their terms of office.

No members shall, before the expiration of his/her term of office, be removed from office without reason except for the circumstances that require dismissal as stipulated in the laws and regulations, the Articles or these terms of reference.

If any member ceases to be a director of the Company or cannot continue to be a director under other circumstances before the expiry of his/her term of office, he/she shall be automatically disqualified from acting as a committee member, and such vacancy shall be filled by the Board of Directors pursuant to Article 3 of these terms of reference.

Any change in the membership of the Audit and Risk Management Committee shall be announced in accordance with the regulatory requirements at the place where the Company's shares are listed.

Article 7 A member of the Audit and Risk Management Committee may concurrently serve as a member of other committees under the Board of the Directors, provided that such member is able to concurrently perform such duties.

Article 8 A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Audit and Risk Management Committee for a period of 1 year from the date of his/her 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 internal audit and internal control and comprehensive risk management department of the Company is a supporting and associated department under the Audit and Risk Management Committee and is responsible for such daily work as meeting notice, preparing meeting documents, daily contacts with the chairman of the Audit and Risk Management Committee, preparing and reporting meeting minutes and meeting resolutions. The office of the Board of the Directors is responsible for the specific work including keeping meeting minutes and meeting resolution, jointly preparing for and organizing meetings with supporting and associated department under the Audit and Risk Management Committee. The secretary of the Board of the Directors is responsible for coordinating among the Audit and Risk Management Committee, supporting and associated department under the Audit and Risk Management Committee, and the work of the office of the Board of the Directors and presenting at the meeting of the Auditing and Risk Management Committee.

CHAPTER 3 DUTIES AND RESPONSIBILITIES

Article 10 The Audit and Risk Management Committee shall make an independent evaluation and supervision as to the compliance, legality and effectiveness of the economic activities of the enterprise on behalf of the Board of the Directors. The primary duties of the Audit and Risk Management Committee are as follows:

- (i) proposing to the Board of the Directors on the engagement, renewal or replacement, termination of the external audit firms, approving, reviewing audit expenses and engagement terms of the external audit firms and dealing with any issues concerning resignation or dismissal of such accounting firms, adopting appropriate measures to supervise the external audit firms and reviewing the report from the external audit firms;
- (ii) reviewing and monitoring the independence and objectiveness of the external accounting firms and the effectiveness of the audit procedures in accordance with applicable standards, discussing with the external audit firms on the nature, scope and relevant reporting responsibilities of audit in advance before the audit commences;
- (iii) providing and implementing non-audit services development policies for the the external audit firms and the Committee shall report to the Board of the Directors and make relevant suggestions on the actions to be adopted or matters to be improved as it may deem necessary;
- (iv) acting as the main representative between the Company and the external audit firms to be responsible for supervising the relationship between them;
- (v) reviewing and supervising the completeness of the Company's financial statements, annual reports and accounts, interim reports and quarterly reports (if prepared for publication), reviewing the statements and reporting major opinions on financial reporting. The Audit and Risk Management Committee shall particularly review the below matters before submitting the relevant statements and reports to the Board of the Directors:
 - 1. any change in the accounting policies and practices;
 - 2. matters involving significant judgement;
 - 3. significant adjustment resulting from audit;

4. the going concern assumptions and any qualifications of the enterprise;
 5. compliance with accounting standards;
 6. compliance with laws and requirement on financial reporting under the HKEx Listing Rules;
- (vi) in order to fulfil the obligations under Item (5) of this article:
1. members of the Committee shall liaison with the Board of the Directors, senior management and its employed auditing firms; the members of the Committee shall at least hold two meetings with the external audit firms every year;
 2. members of the Committee shall take into consideration any significant or unusual items that are, or may need to be, reflected in the financial reports and accounts, and shall give due consideration to any matters that have been raised by the Company's staff responsible for financial function, internal audit or supervision or the external audit firms;
- (vii) reviewing the financial control, internal control and risk management system of the Company and constantly reviewing the implementation of the system; ensuring reviewing the effectiveness of the risk management and internal control system of the Company and its subsidiary at least once a year;
- (viii) reviewing the Company's compliance with its applicable corporate governance code and reviewing the corporate governance report as required by the regulatory requirements at the place where the Company's shares are listed;
- (ix) discussing the risk management and internal control system with the management to ensure that the management has established an effective internal control system. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. Supervising the effective implementation and self-assessment of internal control and coordinating internal control audit and other relevant issues;
- (x) Considering any findings of major investigations on risk management and internal control matters as delegated by the Board of the Directors or on its own initiative and management's response;

- (xi) ensuring the coordination between the internal audit department and external audit firms; ensuring that the internal audit department has possessed sufficient resources to be operated and has an appropriate position; reviewing and supervising the effectiveness of the operation of the internal audit department;
- (xii) reviewing the financial, accounting policies and practices of the Company;
- (xiii) inspecting the Letter of Audit Results (《審核情況說明函件》) issued to the management by the external accounting firms, any material queries about accounting records, financial accounts or control system made to the management by the external accounting firms and the replies made by the management;
- (xiv) ensuring the timely response of the Board of Directors to any matters raised in the Letter of Audit Results (《審核情況說明函件》) issued by the external accounting firms;
- (xv) ensuring the Company has established suitable channels for employees to report or raise any concerns, in confidence, about possible inappropriate in financial reporting, internal control or other matter, and review relevant arrangements from time to time, which are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (xvi) submitting the annual report on overall risk management to the Board of Directors;
- (xvii) considering the Company's risk management strategies and the solutions for major risk management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (xviii) confirming the list of the Company's related/connected persons and report to the Board of Directors and the Supervisory Committee; to conduct a preliminary review of the related/connected transactions to be submitted to the Board of Directors for consideration; and to reviewed the reasonableness and necessity of the major related/connected transactions;
- (xix) considering the judgment criteria or the judgment mechanism related to major decision-makings, major risks, major events and important business procedures, as well as the risk assessment report of major decisions;
- (xx) considering the report on the internal control submitted by the internal audit department;

- (xxi) considering the establishment of the risk management organizations, and proposals of their responsibilities;
- (xxii) supervising and control the risk of being affected by overseas sanction laws, to ensure timely, complete and accurate disclosure of information on the transactions sanctioned by overseas sanction laws;
- (xxiii) reporting on the relevant matters within its scope of responsibility to the Board of Directors; and to report to the Board of Directors its decisions or recommendations, except those which cannot be reported according to the laws or regulatory restrictions;
- (xxiv) other functions and powers granted by the Board of Directors; and
- (xxv) other relevant requirements for the powers and duties of the Committee according to the regulatory rules of the place where the shares of the Company are listed as amended from time to time.

Article 11 The Audit and Risk Management Committee is to be provided with sufficient resources to discharge its duties and may source supports from the Company's relevant departments or personnel according to work requirements. If necessary, the Audit and Risk Management Committee may also engage independent intermediaries to advise on its decision-makings at the reasonable cost of the Company.

Article 12 The Audit and Risk Management Committee shall examine and supervise the independence of the external audit firm in accordance with the procedure below:

- (i) studying all relations between the Company and the audit firm (including non-audit services);
- (ii) asking for information from the audit firm every year, and get to know the policies and procedures adopted by the audit firm for keeping its independence and with respect to the implementation of relevant supervision rules, including the rules on replacement of the partner and staff of the audit firm; and
- (iii) meeting the external audit firm without the presence of the management at least once a year to discuss the matters related to audit expenses, any matters incurred due to the audit work and other matters proposed by the audit firm.

Article 13 The Audit and Risk Management Committee shall report to the Board of Directors. The motions raised by the Audit and Risk Management Committee shall be submitted for the review and approval by the Board of Directors, unless otherwise authorized by the Board of Directors. The Audit and Risk Management Committee shall cooperate in relation to the audit activity of the Supervisory Committee.

Article 14 In performing its duties under Article 10, the Audit and Risk Management Committee has no obligation for planning and implementing audit activities or for ensuring the Company's financial reports are complete and accurate or for preparation of the financial reports. The management of the Company shall be responsible for preparation of the financial reports whereas the accounting firm shall be responsible for the audit of the Company's financial reports.

Article 15 At the invitation of the Chairman of the Board of Directors, the chairman of the Audit and Risk Management Committee, or in his/her absence, another member of the Committee or his/her authorized representative, shall attend the Company's annual general meeting and answer questions.

Article 16 The Audit and Risk Management Committee shall make available these terms of reference, explaining its role and the authority delegated to it by the Board of Directors by including them on the Company's website and Stock Exchange's website according to the relevant regulatory rules of the place where the shares of the Company are listed.

CHAPTER 4 RULES OF PROCEDURES

Article 17 Meetings of the Audit and Risk Management Committee can be classified into regular meetings and interim meetings. The Audit and Risk Management Committee shall hold at least one regular meeting in the first half of a year and in the second half of a year each.

Article 18 The Audit and Risk Management Committee shall hold an interim meeting if proposed by the chairman of the Committee, more than two members of the Committee, or the Board of Directors or the Chairman of the Board of Directors.

Article 19 A notice shall be given to all members of the Audit and Risk Management Committee by the supporting department three days prior to the convening of a meeting. In case of emergency that requires the Committee to convene a meeting as soon as possible, the Committee may give a notice of the meeting on that day by phone, fax, or e-mail, but the chairman of the Committee must give an explanation at the meeting.

Article 20 A meeting of the Audit and Risk Management Committee shall be presided over by the chairman or if he/she is unable to attend, another member (independent non-executive Director) of the Committee designated by him/her.

Article 21 A meeting of the Audit and Risk Management Committee shall not be held unless attended by more than two-thirds of its members. Members of Audit and Risk Management Committee shall attend the meeting in person or in a manner of teleconference or by aid of similar communication equipment. If the member is unable to attend the meeting for certain reason, he/she may authorize another committee member in writing to attend the meeting on his/her behalf. The power of attorney shall set forth the scope of authorization.

Article 22 If a meeting of the Audit and Risk Management Committee is held, the relevant personnel of the Company may be invited to attend the meeting when necessary.

Article 23 The voting of the committee meetings shall be taken by poll or show of hands. Each member shall have one vote. Resolutions passed at the meeting must be approved by a majority of all members of the Committee.

Article 24 A meeting of the Audit and Risk Management Committee may be held by way of written resolutions. Written resolutions shall be dispatched by facsimile, courier or by hand or otherwise to all members, and shall be returned in original copies to the Company for filing after deliberation by the members. A proposal signed by consenting members satisfying the threshold hereunder shall become a resolution of the Committee.

Article 25 The procedures for convening the Audit and Risk Management Committee, the voting method and the resolutions passed at such meeting shall be in compliance with the provisions of the relevant laws, regulations, the Articles and these terms of reference.

Article 26 Resolutions passed at the meeting of the Audit and Risk Management Committee and any vote results shall be reported to the Board of Directors of the Company in writing.

Article 27 Persons participating in the meeting of the Audit and Risk Management Committee shall undertake confidentiality obligations for all items discussed at the meeting and shall not disclose any information in relation to the meeting unless authorized by the chairman of the Board of Directors or the Board of Directors of the Company.

Article 28 where the Board disagrees with the Audit and Risk Management Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit and Risk Management Committee explaining its recommendation and also the reason(s) why the Board of Directors has taken a different view.

Article 29 The supporting department of the Audit and Risk Management Committee shall record complete minutes. Members of the Committee who attend the meeting shall sign on the minutes. The supporting department shall submit the minutes to the Board of Directors office of the Company for filing in a manner in line with the Company's file management system for the inspection of directors at any time.

CHAPTER 5 WORKING PROCEDURES

Article 30 The supporting department under the Committee shall be responsible for the preparation work for the decision of the Committee by providing the following information of the Company in written form:

- (i) relevant financial reports of the Company;
- (ii) working reports of the internal auditors;
- (iii) contracts of the external auditors and relevant working reports;
- (iv) reports on the annual risk management;
- (v) assessment reports on material risks and decisions;
- (vi) assessment reports on the internal control system of the Company and its implementation;
- (vii) audit reports of major connected transactions of the Company; and
- (viii) other relevant matters.

Article 31 The Audit and Risk Management Committee shall evaluate reports provided by the supporting department and submit relevant written resolutions to the Board of Directors for discussion.

Article 32 The internal audit department of the Company shall report its works to the Audit and Risk Management Committee. All audit reports, rectification plans of audit issues and status of rectification reported to the management shall also be reported to the Audit and Risk Management Committee.

Article 33 Where the Company engages or replaces its external accounting firm, the Audit and Risk Management Committee shall form an opinion on relevant matters and propose a resolution to the Board of Directors for further consideration.

CHAPTER 6 SUPPLEMENTARY PROVISIONS

Article 34 Unless otherwise specified, the terms used herein shall have the same meaning ascribed thereto under the Articles.

Article 35 Any matters not covered by these terms of reference or in the event that these terms of reference are inconsistent with the laws, regulations, listing rules or the Articles as promulgated or amended from time to time after these terms of reference become effective, such laws, regulations, listing rules the Articles formulated or revised through legal procedures shall prevail and these term of reference shall be amended forthwith and submitted to the Board of Directors of the Company for approval.

Article 36 These terms of reference were considered and approved by the Board of Directors of the Company and shall become effective on the date of the listing of overseas listed foreign shares issued by the Company on The Stock Exchange of Hong Kong Limited.

Article 37 Interpretation of these terms of reference shall be vested in the Board of Directors of the Company.