

Chongqing Iron & Steel Company Limited

重慶鋼鐵股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(在中華人民共和國註冊成立的股份有限公司)

(Stock Code: 1053)

WORK REGULATIONS OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

1 GENERAL PROVISIONS

- 1.1 In order to improve the corporate governance structure and reduce risk in decision-making, the Board hereby sets up the Audit Committee and formulates these work regulations in accordance with requirements of the Company Law of the People's Republic of China (the "**Company Law**"), the Securities Law of the People's Republic of China (the "**Securities Law**"), the Standards for the Governance for Listed Companies, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, A Guide for Effective Audit Committees issued by the Hong Kong Institute of Certified Public Accountants and the Articles of Association of Chongqing Iron & Steel Company Limited (the "**Articles of Association**").
- 1.2 The Audit Committee is a special committee under the Board, which, through conducting independent review, assists the Board in overseeing and monitoring the Company's financial reporting procedures and quality as well as internal control effectiveness, and provides recommendations and advice for the Board to facilitate decision making so as to enhance the efficiency, reporting level, transparency and objectivity of the Board.

The Audit Committee is accountable to the Board, reports works to the Board and its terms of reference shall be determined at the plenary meeting of the Board.

2 COMPOSITION

- 2.1 The Audit Committee shall comprise three to five non-executive directors, at least three of whom shall be independent non-executive directors. Members of the Audit Committee shall in principle be independent of the daily operation and management affairs of the listed company. Members of the Audit Committee shall be diligent and responsible, supervise and evaluate the internal and external audit work of the Company in a practical and effective way, and promote the establishment of effective internal control to provide financial reports that are true, accurate and complete. All members of the Audit Committee of the Board shall possess the expertise and commercial experience enabling them to fulfil the duties of the Audit Committee.
- 2.2 Members of the Audit Committee shall be appointed by the Board amongst the members of the Board, and shall be directors who do not serve as senior management in the listed company. More than half of the members shall be independent directors.
- 2.3 The Audit Committee shall have one chairman who shall be an independent non-executive director and the chairman should be an accounting professional with relevant professional experience in accounting or financial management. The chairman of the Committee is responsible for convening and presiding over the meeting of the Audit Committee as well as the liaison with the directors, the management, the audit department and external auditor of the Company. In principle, the chairman shall not serve as the chairman of other special committees of the Board.
- 2.4 The secretary of the Board shall concurrently serve as the secretary of the Audit Committee and shall be responsible to coordinate daily work of the Committee including working contact, meeting organization, material preparation and file management.
- 2.5 The term of office of the Audit Committee is the same as that of the Board of the same session, the members are eligible for re-election at the expiry of their term of office. If any member ceases to hold office as a director of the Company during the term, he/she shall automatically be disqualified from holding office as a member and the Board shall fill in the vacancy of members in accordance with the provisions of Clauses 2.1 to 2.3 above.

2.6 A member of the Audit Committee shall be removed by the Board in the following circumstances:

2.6.1 He/she submits a written application for resignation.

2.6.2 It is unsuitable for him/her to remain as a member of the Audit Committee due to work change during his/her tenure.

2.6.3 He/she commits an act of gross misconduct or violates laws, regulations, the Articles of Association and the provision hereof during his/her tenure.

2.6.4 Other circumstances which make the Board consider him/her unsuitable as a Committee member.

3 DUTIES

3.1 To supervise and evaluate the work of external auditor:

3.1.1 To supervise and evaluate the independence, professionalism, and reasonableness of services, charges and terms of engagement of the external auditor.

3.1.2 To propose the appointment and replacement of the external auditor to the Board and make recommendation to the Board on relevant issues.

For appointing or replacing the external auditor of the Company, the Audit Committee shall form opinions and make recommendations to the Board before the Board considers the relevant proposal.

The Audit Committee shall make recommendations to the Board on the appointment and replacement of the external auditor and review the auditing fees and engagement terms of the external auditor without undue influence from the substantial shareholders, de facto controller or directors, supervisors and senior management.

- 3.1.3 To develop and implement policy on the provision of non-audit services by the external auditor; report to the Board on such matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.
 - 3.1.4 To discuss and communicate with the external auditor on the audit scope, audit plan, audit method, and material matters identified in the audit process, to review and supervise whether the external auditor is independent and objective and the audit process is effective based on applicable standard.
 - 3.1.5 To supervise and evaluate whether the external auditor is diligent and responsible.
 - 3.1.6 The Audit Committee shall meet with the external auditor for separate communication at least once a year without the attendance of the management.
 - 3.1.7 The Audit Committee shall supervise and ensure the external auditor is honest, trustworthy and diligent, strictly complies with business rules and industry self-discipline, strictly implements the internal control system, verifies the financial accounting reports of the Company, performs obligations which need special attention, and prudently gives professional opinion.
- 3.2 To supervise, manage and evaluate the internal audit work:
- 3.2.1 to guide and supervise the establishment and implementation of the internal audit system.
 - 3.2.2 to review the annual internal audit plan of the Company.
 - 3.2.3 to supervise the implementation of internal audit plan of the Company.
 - 3.2.4 to guide the internal audit department on effective operation. The internal audit department of the Company shall report works to the Audit Committee and various audit reports, rectification plans and rectification progress related to audit matters submitted by the internal audit department shall be reported and sent to the Audit Committee.

3.2.5 to report to the Board on the progress and quality of internal audit and major problems identified.

3.2.6 to coordinate the relationship between the internal audit department and the external audit unit including the accounting firm, the national audit institutions.

3.2.7 to supervise and ensure the internal audit department reviews the following matters, prepares a review report and submits it to the Audit Committee at least once every half year. The Audit Committee shall timely report to the Shanghai Stock Exchange any non-compliance or non-standard operation as it is identified:

3.2.7.1 the implementation of major events such as the use of raised proceeds, provision of guarantees, related transactions, securities investment and derivatives transactions, provision of financial assistance, purchase or sale of assets, external investments, etc..

3.2.7.2 large-value transactions of the Company and the transactions with directors, supervisors, the senior management, controlling shareholder and de facto controller and their respective associates.

3.3 To review the financial report of the Company and give opinions:

3.3.1 to review the financial report of the Company and give opinions on the truthfulness, completeness and accuracy of the financial report.

Review of the Company's annual reports shall focus on:

3.3.1.1 whether the accounting policy of the Company conforms to the accounting standards and other regulations, analysis of reasons of deviation, and making recommendations to the Board on amending and improving the Company's existing accounting policy.

- 3.3.1.2 whether the calculation basis of the financial accounts and the judgment of the Company's management are reasonable, and making enquiries as to whether there exist a more reasonable calculation basis for the unreasonable part, or whether additional supplementary material is necessary before a conclusion is drawn.
 - 3.3.1.3 the auditor's report, management letter and key proposals submitted by the external auditor and the responses from the Company's management.
 - 3.3.1.4 any disputes between the Company and its external auditor, and other concerns of the external auditor.
 - 3.3.1.5 major audit adjustments, and whether any adjustment or further disclosure is needed for the disputed audit differences.
 - 3.3.1.6 the sufficiency and accuracy of disclosure of financial statements, in particular the compliance with relevant requirements of disclosure information on extraordinary items such as connected transactions, assets purchases, liabilities and litigations.
 - 3.3.1.7 whether the report of directors, the corporate governance report and the discussion and analysis of the management objectively and fairly reflect the Company's performance and whether such representations are appropriate.
 - 3.3.1.8 whether the financial accounts, financial data and contents set out in annual reports are consistent with those in other reports and information to be submitted for external use. To review the Company's annual reports along with the management, the external auditor, etc. to ensure their standardization, objectiveness and accuracy.
- 3.3.2 to focus on significant accounting and audit matters of the Company's financial reports, including adjustments to material accounting errors, changes in significant accounting policies and estimates, issues involving significant accounting judgments, and matters resulting in a failure to receive standard unqualified opinion audit reports.
 - 3.3.3 to pay special attention to the possibilities of fraud, corrupt practice and material misstatements relating to financial reporting.

3.3.4 To urge the relevant responsible departments of the Company to formulate rectification measures and the timing of rectification, conduct follow-up reviews, supervise the implementation of the rectification measures and disclose the completion of the rectification in a timely manner.

3.4 To supervise and assess the Company's internal controls:

3.4.1 To evaluate the adequacy of the Company's internal control system.

3.4.2 To monitor the implementation of the Company's internal control and risk management system to ensure due internal control and risk management procedures are in place.

3.4.3 To review the self-evaluation reports of internal control.

3.4.4 To review the internal control audit reports issued by the external auditor, as well as the matters and improvement measures formulated after communication with the external auditor.

3.4.5 To evaluate the results of internal control evaluations and audits and supervise the rectification of deficiencies in internal control.

3.4.6 Based on the internal audit report and related information submitted by the internal audit department, to issue a written assessment of the effectiveness of the Company's internal controls and report to the Board.

- 3.5 To coordinate communication between management, internal audit department and related departments and external auditor:
- 3.5.1 To review the external auditor's management letter, and any material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response, and ensure the Board's timely response to the issues raised in the management letter by the external auditor.
 - 3.5.2 To facilitate the communication between the internal audit department and external auditor and coordinate with the external audit work.
- 3.6 The Audit Committee shall report to the Board on the measures or improvements that it considers necessary and make recommendations.
- 3.7 To handle other matters under laws, regulations, the Articles of Association and the authorisation of the Board.

4 RULES OF PROCEDURE

- 4.1 Meetings of the Audit Committee shall be classified into regular meetings and extraordinary meetings. The Audit Committee shall meet at least once a quarter. When two or more of the Audit Committee members propose or the chairman of the Committee considers necessary, an extraordinary meeting can be convened. Meetings of the Audit Committee shall be held with the presence of at least two-thirds of the members.
- 4.2 Notice of a meeting of the Audit Committee shall be given to all members ten days prior to such regular meeting, while the date of an extraordinary meeting may not be subject to the foregoing time requirements, but shall be determined on the basis that all the members are able to receive the notice and allowed reasonable time for making preparations. Meetings of the Committee shall be convened and chaired by its chairman. If the chairman is unable to convene and attend such meeting, he may appoint another independent director of the Audit Committee to perform his duties.
- 4.3 Formal opinions proposed by the Audit Committee to the Board on the matters under consideration shall be passed by more than half of all members. In the event that no effective review opinion is concluded due to the abstention from voting of any member of the Audit Committee, the underlying matter shall be directly considered by the Board.

The Audit Committee is responsible for reviewing the Company's financial information and its disclosure and supervision, as well as evaluation of internal and external audit work and internal control. The following matters shall be submitted to the Board for consideration upon the consent of more than half of all members of the Audit Committee:

- 4.3.1 Disclosure of financial information and internal control evaluation reports in financial reports and periodic reports.
- 4.3.2 Appointment or dismissal of accounting firms that undertake audit services for the listed company.
- 4.3.3 Appointment or dismissal of the chief financial officer of the listed company.
- 4.3.4 Change of accounting policies and accounting estimates, or correction of significant accounting errors due to reasons other than changes in accounting standards.
- 4.3.5 Other matters stipulated by laws, administrative regulations, the China Securities Regulatory Commission, and the Articles of Association.
- 4.4 The secretary to the Board of the Company is responsible for preparing for the meetings of the Audit Committee and providing the Audit Committee with the materials necessary for the performance of its duties.
- 4.5 The meetings of the Audit Committee may be convened via communication.
- 4.6 The Audit Committee may, by itself, appoint audit, consulting and other intermediaries to provide professional advice for the performance of its duties, at the expenses of the Company; and invite outsiders with professional experience to attend the Committee meetings when necessary.
- 4.7 The convening and holding procedures, voting method of meetings of the Audit Committee shall comply with the relevant laws, regulations, the Articles of Association and the Regulations.
- 4.8 Members of the Audit Committee shall attend the meetings in person and express their clear opinions on the matters under consideration. If a member is unable to attend the meeting in person for any reason, he/she may submit a power of attorney signed by the member and appoint other member to attend and express opinions on his/her behalf. The power of attorney shall expressly state the scope and duration of the authorization. Each member can only be authorised by one member. If an independent director is unable to attend the meeting in person, he/she shall entrust other independent directors to attend the meeting on his/her behalf.

If the members of the Audit Committee are interested in matters discussed at the meeting, they shall be abstained from voting.

- 4.9 When the Audit Committee considers necessary, it may invite directors, supervisors, management, internal auditor, financial officers, representatives of external auditor, legal advisors and other relevant personnel to attend the committee meetings to answer relevant questions from the members. The secretary to the Audit Committee must attend its meetings.
- 4.10 Before the finalization of annual financial statements, the Audit Committee shall hold at least one meeting with the external auditor in the absence of any executive directors to communicate over the audit of relevant financial statements.
- 4.11 The meeting of the Audit Committee shall have minutes on which its members attending the meeting shall sign their names. The secretary to the Board shall ensure completeness of meeting minutes of the meetings and shall be responsible for the proper maintenance of such minutes.
- 4.12 All members present at such meetings shall have an obligation to keep all matters discussed thereat confidential, and shall not disclose relevant information without authorization.

5 REPORTING PROCEDURES

- 5.1 The deliberations adopted by the Audit Committee shall be reported to the Board.

The Audit Committee shall submit to the Board a report on the work it carried out and the review results of the annual financial report on an annual basis. The report shall include the following particulars:

- 5.1.1 the details about the review of the interim and annual financial statements.
- 5.1.2 an assessment of the work of the external accounting firm, including an evaluation of the quality of services, the reasonableness of the fees charged and the recommendations on the reappointment or replacement.
- 5.1.3 an assessment of the internal audit by the Company as to whether the internal audit system was effectively implemented, and whether the Company's financial report was comprehensive and truthful.

- 5.1.4 whether the Company's internal control and risk management systems were effectively implemented.
- 5.1.5 whether the financial information disclosed to the public by the Company was objective and truthful, and whether the significant connected transactions of the Company were in compliance with relevant laws and regulations.
- 5.1.6 other related matters.

The Audit Committee may submit an interim report to the Board according to the circumstances.

- 5.2 If the Audit Committee makes recommendations to the Board on matters within the scope of its duties and responsibilities, and the Board does not adopt such recommendations, the Company shall disclose such matters and fully explain the reasons.
- 5.3 The reports and minutes of meetings to be submitted by the Audit Committee to the Board shall be formally approved by the Committee before they are submitted to the Board.
- 5.4 The Company shall disclose the annual performance of the Audit Committee on the website of the Shanghai Stock Exchange, including mainly the composition of the personnel, professional background and experience in the industry within five years, as well as the changes in the personnel of the Audit Committee, the situation of the performance of its duties and the convening of the Audit Committee meetings.
- 5.5 Where any material issue identified by the Audit Committee in the course of performing its duties falls within information disclosure standards specified in the regulatory rules, the Company shall disclose such issue and its rectification in a timely manner.

6 SUPPLEMENTARY PROVISIONS

- 6.1 Matters not covered by these regulations shall be executed in accordance with the relevant laws and regulations of the State and relevant regulatory documents issued by the regulatory authorities; In the event that these regulations are in conflict with the laws and regulations promulgated by the State in future, the Listing Rules (as amended from time to time) or the Articles of Association (as amended pursuant to legal procedures), such laws and regulations, the Listing Rules, as amended from time to time, or the Articles of Association amended through lawful procedures shall prevail, and corresponding amendments to these regulations shall be made forthwith.
- 6.2 These regulations shall be interpreted and amended by the Board of the Company.
- 6.3 These regulations shall come into effect on the date of approval by the Board of the Company.