

# PU'ER LANCANG ANCIENT TEA CO., LTD.

## 普洱瀾滄古茶股份有限公司

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

**(Stock Code: 6911)**

### AUDIT COMMITTEE OF THE BOARD OF DIRECTORS — TERMS OF REFERENCE

**(Applicable upon Issuance of H Shares)**

#### Chapter I General Provisions

**Article 1** In order to establish and improve the internal control system of Pu'er Lancang Ancient Tea Co., Ltd. ("Company"), strengthen the decision-making function of the Board of Directors, practice pre-audit and professional audit, ensure effective supervision of the Board of Directors over managers, and improve the governance structure of the Company, the Company hereby sets up the Audit Committee of the Board of Directors and formulates these Terms of Reference in accordance with the *Company Law of the People's Republic of China* ("Company Law"), the *Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies*, the *Guidelines on the Bylaws of Listed Companies*, the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("HK Listing Rules"), the Articles of Association of Pu'er Lancang Ancient Tea Co., Ltd. ("Articles of Association"), the rules of procedure of the Board of Directors of the Company, and other applicable provisions.

**Article 2** The Audit Committee is a special working body under the Board of Directors of the Company, mainly performs the functions of inspecting the financial conditions of the Company, reviewing the financial information of the Company, making judgments on the authenticity, completeness, and accuracy of the financial information, and inspecting the implementation and effectiveness of the internal control system, and is mainly responsible for communicating with external audit agencies on behalf of the Company, supervising and inspecting such external audit agencies, regulating internal audit, evaluating, improving, and providing suggestions on the internal control system of the Company, and carrying out risk assessment with respect to the Company's major investment projects in operation. The Audit Committee shall be responsible for and report its work to the Board of Directors.

## Chapter II Composition

**Article 3** The Audit Committee is composed of three or more Directors who must be Non-executive Directors, a majority of whom shall be Independent Non-executive Directors, and the chairman of the Audit Committee must be an Independent Non-executive Director. At least one member of the Audit Committee shall be a person who has obtained appropriate professional qualification required by the HK Listing Rules or has accounting or relevant financial management expertise (“Financial Professional”).

A former partner of the external audit agency currently engaged by the Company shall not be a member of the Audit Committee within two years from the date he/she ceases to be a partner of such audit agency or to have any financial interest in such audit agency (whichever is later).

**Article 4** The members of the Audit Committee shall be nominated by the chairman of the Board of Directors, one half or more of Independent Non-executive Directors, one third or more of all Directors, or the Nomination Committee and be elected by the Board of Directors.

**Article 5** The Audit Committee shall have one (1) chairman (convener), who shall be a Financial Professional among Independent Non-executive Directors, responsible for convening the meetings of the Audit Committee, and in charge of the work of the Audit Committee. The chairman of the Audit Committee shall be appointed by the Board of Directors.

**Article 6** The secretary of the Company shall act as the secretary of the Audit Committee. The Audit Committee may appoint, from time to time, any other person who is appropriately qualified and experienced as the secretary of the Audit Committee.

**Article 7** The term of office of a member of the Audit Committee shall be the same as that of the Board of Directors and a member of the Audit Committee may be reappointed if re-elected upon expiry of his/her term of office. A member of the Audit Committee shall not be removed from office for no reason before the expiry of his/her term of office, unless any circumstance under which he/she shall not be a member of the Audit Committee as required by the Company Law, the Articles of Association, the HK Listing Rules, or these Terms of Reference occurs. During the term of office, if a member ceases to be a Director of the Company or to satisfy the independence requirements of the HK Listing Rules that he/she is required to satisfy as an Independent Non-executive Director, such member shall be automatically disqualified from the member of the Audit Committee and the Board of Directors shall fill the job vacancy in accordance with the provisions of Articles 3 to 5 hereof.

**Article 8** An internal audit department shall be set up under the Audit Committee to be responsible for making and implementing internal audit work plan, carrying out daily working communications, organizing meetings, and handling other matters as approved by the Audit Committee and shall be responsible to the Audit Committee.

### **Chapter III Duties and Powers**

**Article 9** The Audit Committee mainly exercises the following duties and powers:

- (I) To be mainly responsible for providing suggestions on the appointment, reappointment, or dismissal of an external audit agency to the Board of Directors, approving the audit fee payable to an external audit agency and the terms of engagement of an external audit agency and handling any problems concerning the separation or dismissal of an external audit agency;
- (II) To review and supervise the independence and objectivity of an external audit agency and the effectiveness of its auditing procedure in accordance with applicable standards; before the commencement of the audit work, to discuss the nature, scope, and method of the audit, relevant reporting responsibilities, as well as major audit findings and, in the case of two or more external audit agencies participating in the audit work, to ensure mutual coordination between those external audit agencies. The procedure of reviewing and supervising the independence of an external audit agency includes the following:
  - 1. To study on all prior relations (including non-audit services) between the Company and the external audit agency;
  - 2. To require the external audit agency to provide relevant materials yearly to understand the policies and procedures that have been adopted by such agency for maintaining its independence and supervising the implementation of relevant rules, including the provisions on the rotation of the partners and staff of such agency; and
  - 3. To meet the external audit agency at least once a year in the absence of the management to discuss the matters concerning the audit fee, any matters arising from the audit work, and other matters that may be proposed by the external audit agency.
- (III) To make and implement the policies on non-audit services to be provided by an external audit agency. For the purpose of this provision, an external audit agency includes any entity under common control, ownership, or management with the company in charge of the audit or any third party that has reasonable access to all relevant materials. Under reasonable conditions, such entity will be taken as a part of such company's domestic or international business. The Audit Committee shall ensure that provision of non-audit services by an external audit

agency shall not impair the independence or objectivity of such agency. With respect to non-audit services, the Audit Committee shall take into account the following:

1. Whether or not the external audit agency's capabilities and experience are suitable for providing non-audit services;
2. Whether or not there are any preventative measures in place to ensure that the external audit agency's objectivity and independence shall not be affected by the provision of such services;
3. The nature of the non-audit services, level of relevant fees, and levels of individual service fee and total service fee charged by such external audit agency; and
4. The standards for determining the auditors' remuneration.

The Audit Committee shall report any action that must be taken, or any matter that must be improved, in its opinion and put forward suggestions on the steps that may be taken to the Board of Directors;

The Audit Committee shall report any action that needs to be taken, or any matter that needs to be improved, and put forward the relevant suggestions to the Board of Directors;

- (IV) To review the Company's financial statements, annual reports and accounts, interim reports, other regular reports, and relevant materials, such as agreed procedures and audit reports, review major opinions with respect to financial reports presented in the financial statements and reports, and issue opinions on completeness, accuracy, and authenticity of the preparation and disclosure of the Company's financial reports;
- (V) Before submitting the relevant statements and reports to the Board of Directors, to review the following matters in particular:
  1. Basis and changes of accounting policies and practices;
  2. Critical accounting judgments;
  3. Critical accounting adjustments;
  4. Assumptions for going-concern;
  5. Qualified opinion issued by an external audit agency; and
  6. Compliance with accounting standards, and provisions of laws, regulations, and the HK Listing Rules concerning financial reporting.

- (VI) To take into account any major or unusual matters that may be or need to be reflected in the reports and accounts mentioned in Sub-article (V) above and give due consideration to any matters that may be put forward by the accountant and financial reporting staff or general inspector of the Company or an audit agency;
- (VII) To keep in contact with the Board of Directors, the senior executives, and the external audit agency and to hold at least two meetings a year with the external audit agency engaged by the Company;
- (VIII) To supervise the financial reporting system, risk management, and internal monitoring system of the Company, including the following:
1. To review the financial monitoring and the risk management and internal monitoring system (unless it is explicitly specified that the Risk Committee of the Board of Directors or the Board of Directors shall perform such work) of the Company;
  2. To discuss the risk management and internal monitoring system with the management to ensure that the management has fulfilled its duties of setting up an effective system. The content for discussion shall include: whether or not the Company's resources, the staff qualifications and experience in the accounting and financial reporting are adequate, and whether or not the training courses for the staff and the relevant budget are sufficient. If any statement on the internal monitoring system of the Company is presented in the annual report, it shall be reviewed before being submitted to the Board of Directors for approval;
  3. To discuss, on its own initiative or as delegated by the Board of Directors, the key findings of risk management and internal monitoring matters as well as the management's response to the findings;
  4. To ensure coordination between internal auditors and external auditors in work; to ensure sufficient resources for the operation and appropriate status of internal audit functions in the Company; and to review and supervise the effectiveness of the internal audit functions;
  5. To review the financial matters, accounting policies and practices of the Company, and its subsidiaries and branches;
  6. To inspect the Letter of Audit Statement sent by an external audit agency to the management, any significant questions on accounting records, financial accounts, or monitoring system raised by the audit agency to the management and the management's response thereto, and other matters that the external audit agency may need to discuss (which may be discussed in the absence of the management, where necessary);

7. To ensure timely response of the Board of Directors to the matters put forward in the Letter of Audit Statement sent by the external audit agency to the management;
  8. To report the matters concerning the provisions of the Code under Appendix 14 to the HK Listing Rules to the Board of Directors;
  9. When the Board of Directors disagrees about the opinions of the Audit Committee on selection, appointment, resignation, or dismissal of an external audit agency, (the Company shall be obligated) to specify the Audit Committee's statement on its suggestions and the reason why the Board of Directors disagrees in the Corporate Governance Report.
- (IX) To monitor the Company's financial reports and any misconducts in the internal control of the Company, including the following:
1. To review the following arrangements set by the Company: the staff of the Company may report any misconduct that may arise in financial reporting, internal monitoring, or other respects to the Audit Committee in a non-public manner; to ensure appropriate arrangements in place to cause the Company to fairly and independently investigate and take appropriate actions against such matter;
  2. To make reporting policy and system so that the staff of the Company and other persons (such as customers and suppliers) who have dealings with the Company can express their concerns about any potential misconduct of the Company to the Audit Committee in a non-public manner.
- (X) To review the scientificity, reasonableness, effectiveness, and implementation of the internal control systems of the Company and its subsidiaries and branches and put forward suggestions on holding the liable person for the violation liable;
- (XI) To review major connected transactions as delegated by the Board of Directors;
- (XII) To give consideration to major findings of internal investigation and the management's response thereto; and
- (XIII) Other matters specified by laws, regulations, normative documents, the HK Listing Rules, the securities regulatory authority of Hong Kong, the Articles of Association, or the rules of procedure of the Board of Directors or delegated by the Board of Directors.

**Article 10** The Audit Committee shall be responsible to the Board of Directors and the proposals of the Audit Committee shall be submitted to the Board of Directors for deliberation and decision. The Audit Committee shall cooperate with the Supervisor Board in audit activities by the Supervisors.

**Article 11** The chairman of the Audit Committee must attend the annual general meetings of the Company and answer the shareholders' questions concerning the Audit Committee's duties and powers. If the chairman of the Audit Committee is unable to attend an annual general meeting, any other member of the Audit Committee or the duly authorized representative of the chairman shall attend the meeting.

**Article 12** The Audit Committee shall publish its duties and powers at the websites of the Stock Exchange of Hong Kong Limited and the Company to make explanations about its role and the powers delegated by the Board of Directors to it.

#### **Chapter IV Decision-Making Procedure**

**Article 13** The internal audit department is responsible for making preliminary preparations for the decision-making work of the Audit Committee and providing written materials about relevant aspects of the Company, including but not limited to:

- (I) Relevant financial reports of the Company;
- (II) Work reports of internal and external audit agencies;
- (III) External audit engagement contract and the relevant work reports;
- (IV) Information disclosure by the Company;
- (V) Relevant work reports on internal control system of the Company and its implementation;
- (VI) Audit reports and agreements on major connected transactions of the Company;
- (VII) Financial and legal materials on major investment projects; and
- (VIII) Other relevant matters.

**Article 14** The working procedure of the Audit Committee is as follows:

- (I) The reports and materials provided by the internal audit department or any other relevant department shall be reviewed at a meeting held by the Audit Committee and the relevant written resolutions shall be submitted to the Board of Directors for discussion, including but not limited to:
  - 1. Appraisal of the external audit agency's work, engagement and replacement of the external audit agency, and approval of the remuneration and terms of engagement of the external audit agency;
  - 2. Whether or not the internal audit system of the Company has been implemented effectively and the financial reports of the Company are complete and authentic;

3. Whether or not the information, such as financial reports, publicly disclosed by the Company is objective and authentic and the major connected transactions of the Company are in accordance with applicable laws and regulations;
  4. Appraisal of the work of the financial department and the internal audit department of the Company, including the principals thereof;
  5. Other relevant matters.
- (II) The Audit Committee performs its working procedure of deliberating annual financial reports as follows:
1. The schedule of preparing audited annual financial reports shall be determined through negotiation between the Audit Committee and the accounting firm performing the annual audit work for the Company;
  2. The Audit Committee shall supervise and urge the accounting firm to submit the audit report within the agreed period;
  3. The Audit Committee shall review the financial and accounting statements prepared by the Company before the certified public accountants for annual audit commence their work and issue a written opinion in principle;
  4. After the certified public accountants for annual audit commence their work, the Audit Committee shall strengthen the communications with such accountants and, after a preliminary audit opinion is given by such accountants, the Audit Committee shall review the financial and accounting statements of the Company again and issue a written opinion in principle;
  5. After the financial and accounting audit report is finished, the Audit Committee shall vote on whether or not to accept such report and submit a resolution to the Board of Directors for review;
  6. While submitting financial reports to the Board of Directors, the Audit Committee shall submit to the Board of Directors a summary report on the audit work performed by the accounting firm for the Company for the current year and a resolution on renewal of engagement of such accounting firm or on engagement of any other accounting firm in the following year.



## Chapter V Rules of Procedure

**Article 15** The meetings of the Audit Committee consist of regular meetings and interim meetings. The Audit Committee shall hold at least two regular meetings a year, namely one regular meeting semiannually, notice of which shall be sent by its chairman (the convener) to all members seven days prior to the holding of the meetings. A regular meeting shall be presided over by the chairman (the convener). When the chairman is unable to attend the meeting, the meeting may be presided over by one member (an Independent Non-executive Director) entrusted by the chairman.

An interim meeting of the Audit Committee shall be held upon proposal by any member or the secretary of the Audit Committee. An external audit agency engaged by the Company may request an interim meeting as it deems necessary. To hold an interim meeting, the convener may send a notice at any time provided that the convener shall make an explanation at the meeting.

**Article 16** The Audit Committee shall meet the audit agency at least once a year in the absence of the management to discuss the matters concerning the audit fee, any matters arising from the audit work, and other matters that may be proposed by the accountants.

**Article 17** The Audit Committee may invite the following persons to attend meetings:

- (I) The financial manager;
- (II) The financial director;
- (III) Other persons responsible for accounting and/or internal functions;
- (IV) Other members of the Board of Directors.

**Article 18** The members of the Audit Committee must personally attend the meetings of the Audit Committee and give their express opinions on the matters being deliberated at the meetings. If a member of the Audit Committee is unable to attend a meeting for any reason, he/she may entrust any other member to attend and give opinions at the meeting on behalf of him/her by submitting a power of attorney signed by him/her. The scope and term of authorization must be specified explicitly in the power of attorney. Each member may be entrusted by one member at the most. If a member (as an Independent Non-executive Director) is unable to attend a meeting of the Audit Committee for any reason, he/she shall entrust any other member (as an Independent Non-executive Director) to attend the meeting on behalf of him/her.

**Article 19** A meeting of the Audit Committee may be held with the attendance of two thirds or more of the members of the Audit Committee; each member has one-vote voting power; and a resolution must be adopted by a majority of all members of the Audit Committee.

Any member of the Audit Committee who has any interest in a matter for discussion at the meeting must be recused. If an effective opinion under deliberation cannot be made due to the recusal of a member of the Audit Committee, the matter concerned shall be deliberated directly by the Board of Directors.

**Article 20** If a meeting of the Audit Committee is held in the form of on-site meeting, the voting shall be carried out in the form of written open ballot; if such meeting is held by communications (such as teleconference and video conference), the voting shall be carried out by communications and a member of the Audit Committee shall be deemed as having attended the meeting and agreeing to the content of the resolution at the meeting if he/she signs the resolution.

The Audit Committee may hold a meeting at which voting is carried out by communications, where necessary.

**Article 21** The senior executives oblige to provide the Audit Committee with sufficient well-timed data in time to assist the Audit Committee in making informed decisions. The data provided must be complete and reliable. The Audit Committee and its members may make further inquiry as they deem necessary and get in touch with senior executives independently by themselves.

**Article 22** The members of the internal audit department may attend the meetings of the Audit Committee in a non-voting capacity. The Audit Committee may invite the Directors, Supervisors, and senior executives of the Company to attend the meetings of the Audit Committee as non-voting delegates, where necessary, but a person who is not a member of the Audit Committee has no power to vote on proposals at the meetings.

**Article 23** The Audit Committee may engage an intermediary agency to provide professional opinions on its decisions at the expense of the Company, where necessary.

**Article 24** The procedure for convening a meeting, form of voting, and proposals adopted at a meeting of the Audit Committee must comply with the provisions and requirements of applicable laws, regulations, the HK Listing Rules, the competent securities regulatory authority, the Articles of Association, rules of procedure of the Board of Directors, and these Terms of Reference.

**Article 25** The minutes of meetings of the Audit Committee shall be kept by the secretary of the Company and signed by the members who have attended the meetings. The matters deliberated and the resolutions adopted at a meeting, including any doubts raised or dissenting opinions expressed by any member, shall be recorded in detail in the minutes of meeting. The draft and final version of the minutes of meeting shall be distributed to all members within a reasonable period after the meeting ends, the draft for expression of opinions by the members and the final version for filing. Upon receipt of a reasonable notice sent by any Director, the Company shall provide such Director with the minutes of meeting for review during reasonable hours.

**Article 26** A resolution that has been signed in written form by all members of the Audit Committee shall be effective as if it had been adopted at the meeting convened and held duly by the Audit Committee.

**Article 27** The proposals adopted and the voting results reached at a meeting of the Audit Committee shall be reported in written form to the Board of Directors, unless they cannot be reported due to the conflict between reporting of such matters and the Audit Committee's general duties or the limitation imposed by laws, regulations, or regulatory provisions. The Audit Committee shall issue written assessment opinions on the effectiveness of internal control of the Company on the basis of the internal audit report and relevant materials provided by the internal audit department and report the opinions to the Board of Directors.

**Article 28** The members attending the meetings of the Audit Committee and the persons sitting in on such meetings shall keep confidential the matters for review and shall not disclose relevant information.

## **Chapter VI Supplementary Provisions**

**Article 29** The terms “or more of”, “or more” and “at least” used herein include the given figure; the term “majority of” used herein does not include the given figure.

**Article 30** These Terms of Reference and any modification hereof shall be deliberated and approved by the Board of Directors, enter into force and are put into effect as of the date when the H shares issued by the Company are listed for trading on the Stock Exchange of Hong Kong Limited, and the Board of Directors is responsible for interpreting these Terms of Reference.

**Article 31** Any matters not covered herein shall be handled in accordance with relevant provisions and requirements of applicable laws, regulations, the HK Listing Rules, the competent securities regulatory authority, and the Articles of Association; in case of any conflict between these Terms of Reference and provisions and requirements of future laws, regulations, the HK Listing Rules, the competent securities regulatory authority, or the lawfully modified Articles of Association, the provisions and requirements of applicable laws, regulations, the HK Listing Rules, the competent securities regulatory authority, or the Articles of Association shall prevail, these Terms of Reference shall be modified, and the modification of these Terms of Reference shall be submitted to the Board of Directors for deliberation and approval.