

# ANRONG (HONG KONG) CREDIT RATINGS COMPANY LIMITED

## Internal Control Mechanisms

### Introduction

All rating analysts must follow ARHK's rating procedures for credit rating analysis. The procedures are enforced by two internal control mechanisms: (1) the Credit Rating Committee and (2) the Conflicts Avoidance System.

### Credit Rating Committee

#### 1.Position and Responsibility of the Credit Rating Committee

- (1) The Credit Rating Committee is the highest authority to approve credit ratings.
- (2) The The Credit Rating Committee should ensure the rating process is rigorous, independent and that the assigned credit rating is objective and fair.

#### 2.Main responsibilities of the Credit Rating Committee

- (1) Endorse the ARHK's credit rating system, rating policy and rating principles.
- (2) Endorse the credit rating methodologies, index systems, rating procedures, and standards of the company.
- (3) Endorse the original rating and surveillance rating.
- (4) Review rating results to ensure accuracy and stability of the credit ratings assigned.

#### 3.Composition of the The Credit Rating Committee

- (1) The The Credit Rating Committee is composed of a minimum of three members including director of The Credit Rating Committee, and The Credit Rating Committee members are from ARHK and Anrong Credit Rating Co., Ltd.

( 2 ) The The Credit Rating Committee director is elected by the board of directors of ARHK for a term of three years and can be re-elected. The Credit Rating Committee members are appointed by the director of the The Credit Rating Committee for a term of three years and can be re-elected on a rollover basis.

( 3 ) The The Credit Rating Committee director takes chair of the The Credit Rating Committee meetings.

( 4 ) The Credit Rating Committee members may resign, and can be added, replaced or dismissed by the The Credit Rating Committee director under certain conditions:-

① If, at any time, the number of The Credit Rating Committee members falls below three, additional member(s) should be appointed within a month.

② If any The Credit Rating Committee member has committed gross negligence, he or she will be dismissed

③ The appointment process of new The Credit Rating Committee members follows the process stated in (2) above.

( 5 ) The The Credit Rating Committee Secretary, who is an officer of the ARHK, is nominated by the The Credit Rating Committee director. The The Credit Rating Committee Secretary is the contact person for The Credit Rating Committee members, and is responsible for issuing meeting notices, taking meeting minutes, and the filing of The Credit Rating Committee documents.

#### **4. Qualifications of The Credit Rating Committee members**

( 1 ) The Responsible Officers, senior credit analysts and external experts are eligible to become The Credit Rating Committee members.

( 2 ) The Credit Rating Committee members should have solid working experience in credit rating and the ability to make independent, objective and fair judgments. The Credit Rating Committee members should have a thorough understanding of credit determinants, credit rating procedures and methodologies.

#### **5. Major Responsibilities of The Credit Rating Committee Members**

(1) Show credit rating directions, advise on policies, and approve the working procedures of credit rating activities.

(2) Express independent views and cast votes to determine the final credit rating of a Rating Target at The Credit Rating Committee meetings.

(3) Discuss and determine credit rating results at The Credit Rating Committee meetings.

(4) Keep all information related to The Credit Rating Committee meetings and of any rating target confidential.

(5) Be aware of the prohibition of making use of confidential information to carry out any illegal and insider dealings.

(6) Disclose and avoid conflict of interest situations

(7) Should read with due care meeting papers and credit rating reports prior to The Credit Rating Committee meetings.

(8) Exercise due diligence in carrying out RC duties

## **6.The Credit Rating Committee Meetings**

(1) Mode of The Credit Rating Committee meetings

①The quorum for The Credit Rating Committee meetings, including the The Credit Rating Committee director, is more than three of the total number of The Credit Rating Committee members.

②The Credit Rating Committee meetings are convened at the office of ARHK, but members may attend the meeting by way of telephone dial-in. At the start of a meeting, the The Credit Rating Committee director will remind members if there are any conflicts of interest situations that members need to disclose, and if so, they must leave the meeting room.

(2) Matters to be discussed at The Credit Rating Committee meetings

①The respective key rating analyst presents the rated entity's credit conditions, methodology adopted for the credit rating analysis, and the recommended rating results.

②Members of the relevant credit rating team and officers of ARHK may attend The Credit Rating Committee meetings as attendants.

③In case there are any disagreements or controversial points of view, sufficient time should be given for discussion.

(3) The Credit Rating Committee voting mechanism

①Credit ratings will ultimately be determined by The Credit Rating Committee members by way of voting.

②The Credit Rating Committee Secretary will record the votes cast and count the votes in front of The Credit Rating Committee members.

③One The Credit Rating Committee member is entitled to one vote only.

④The voting result is based on the simple majority rule. The final voting result of a credit rating will be announced by the The Credit Rating Committee director who will sign off the voting result paper.

(4) Re-evaluation system

①If there are adequate materials or information that the rated entity considers may cause a change in the rating result before the public announcement, The Credit Rating Committee members should allow the opportunity for the rated entity to submit supplementary information for re-evaluation.

②If a rated entity disagrees with its credit rating before the credit rating is publicly announced, it may submit to ARHK management a written review request together with supplementary information within five working days from the date of the rating report.

③Upon receiving the rated entity's request and supplementary information, ARHK 's analysts apply for rating appeals no later than three working days. If the supplementary information provided by the rated entity are not sufficient to change the rating result, the project team should send notification to the rated entity that the rating appeals is not accepted.

④The Credit Rating Committee director should convene a meeting as soon as possible to discuss whether The Credit Rating Committee members should meet to consider changing the credit rating result.

⑤ The credit rating committee should promptly convene a meeting to consider the information and reconfirm the rating level. The final credit rating is determined by the re-evaluation of the credit rating committee.

⑥ In principle, Filing of the credit rating documents will be done within one month after public announcement of the credit rating results.

### **Conflict Avoidance System**

The Conflicts Avoidance System is established to prevent any conflict of interest that may arise before or during the rating process. The system ensures that ARHK's credit rating is operated with due care under the principle of independence, objectivity, and fairness.

#### **1.Measures for Conflict Avoidance**

(1) Before signing an engagement letter with a rated entity, ARHK will check to see if any of the following conflict of interest situations may exist.

(2) When ARHK and a rated entity are under common control.

(3) When ARHK and a rated entity, have common shareholder(s) or director(s).

(4) When a rated entity or its ultimate holding company directly or indirectly owns ARHK shares.

(5) When ARHK or its holding company directly or indirectly owns more than 5% in the share capital of a rated entity.

(6) When ARHK buys or sells shares of the rated entity within three months before the commencement of the rating service provided by ARHK.

(7) When any of ARHK's directors or analysts holds any amount of the respective rated entity's shares.

In the event that any of the foregoing disclosures or conflict avoidance situations exists, the relevant ARHK directors and staff who are involved in the credit rating project should by their own initiative report to the Managing Director of such existence. As for those who are involved in a credit rating project as a Project Approver, Credit Rating Committee member, Responsible Officer or Compliance

Officer, it is their responsibility to report to the Managing Director on the existence of any situations requiring disclosure or avoidance.

If there is any conflict of interest existing and cannot be avoided, ARHK should decline the engagement request. And at the time during a credit rating engagement, if a conflict of interest situation arises with the rated entity, ARHK should immediately halt the rating work, explain to the rated entity, take remedial actions and, depending on the circumstances, may terminate or suspend the rating engagement.

## **2. Staff Conflict Avoidance Management Measures**

Under this context, staff refers to any rating analyst and the Rating Director. Should any conflict of situation occur, the relevant staff should report to the Managing Director of such situation and for the Credit Rating Committee (The Credit Rating Committee) members, disclose it to the The Credit Rating Committee director prior to the upcoming The Credit Rating Committee meeting or at the The Credit Rating Committee meeting.

When assigned to a credit rating project, the relevant credit rating analyst is required to report to the Managing Director should there exist any potential conflict of interest. The Managing Director together with the Rating Director will form an opinion as to whether the analyst is suitable to be involved or continue to be involved in the rating project.

All The Credit Rating Committee members and ARHK staff are required to report to the Managing Director should any of the following conflict of interest situations arise:

(1) Holds shares in the rated entity or its ultimate holding company when rating of the rated entity is under way.

(2) If a staff or a The Credit Rating Committee member is the managing director, supervisor, responsible person, auditor, legal counsel, financial consultant or financial services provider of the rated entity.