



中國基礎能源控股有限公司
China Primary Energy Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8117)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

(Adopted by China Primary Energy Holdings Limited (the “Company”) pursuant to the board resolutions passed on 1 June 2005 and amended and restated pursuant to the board resolutions on 12 July 2016)

1. CONSTITUTION

1.1 The board (the “**Board**”) of directors (the “**Directors**”) of the Company established a committee of the Board known as the audit committee (the “**Committee**”) of the Company with details as described below.

2. MEMBERSHIP

2.1 The members of the Committee shall be appointed by the Board from amongst the non-executive Directors only. The Committee shall consist of a minimum of three members, at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise. The majority of the Committee members must be independent non-executive Directors.

2.2 The chairman of the Committee shall be appointed by the Board and must be an independent non-executive Director.

3. QUORUM

3.1 The quorum for decisions of the Committee should be any two members of the Committee, of whom at least one should be independent non-executive Director.

4. ATTENDANCE AT MEETINGS

4.1 As necessary or desirable, the Chairman may request that members of management, the head of internal audit and representatives of the external auditors be present at meetings of the Committee. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditors without the presence of the executive Board members.

4.2 The company secretary of the Company shall be the secretary (the “**Secretary**”) of the Committee.

5. FREQUENCY OF MEETINGS

- 5.1 Meetings shall be held not less than 4 times a year. Additional meeting should be held as the work of the Committee demands. The external auditors may request a meeting if they consider that one is necessary.

6. NOTICE OF MEETINGS

- 6.1 A meeting of the Committee may be convened by any of its members or by the Secretary.
- 6.2 Notice of meetings shall be given to all members of the Committee at least 2 working days before the meeting, unless all members unanimously waive such notice.
- 6.3 Agenda and accompanying supporting papers shall be sent to all members of the Committee and to other attendees as appropriate at least 2 working days before the date of the meeting (or such other period as the members may agree).

7. AUTHORITY

- 7.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 7.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

8. DUTIES

- 8.1 The duties of the Committee shall be include the following aspects:

Relationship with the Company's auditor

- (a) to recommend to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of their resignation or dismissal;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall 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 having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally;
- (d) to review and monitor the independence of external auditors, the Committee shall:
 - (i) consider all relationships between the Company and the audit firm (including the provision of non-audit services);
 - (ii) seek from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding rotation of audit partners and staff; and
 - (iii) meet with auditor, at least annually, in the absence of management of the Company, to discuss matters relating to the audit fees, any issues arising from the audit and any other matters the auditor may wish to raise;

Review of financial information of the Company

- (e) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, to review the Company's annual report and accounts, half-year report and quarterly reports before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and other legal requirements in relation to financial reporting;

- (f) In this regard to (e) above:
 - (i) members of the Committee must liaise with the Board, senior management of the Company and the person appointed as the Company's qualified accountant and the Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;

Oversight of the Company's financial reporting system, risk management and internal control systems

- (g) to review external auditors' management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (h) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (i) to discuss the risk management and the internal control systems with management to ensure that management has performed its duty to have an effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function of the Company;
- (j) where the internal audit function exists, to ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness;
- (k) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (l) to review the financial and accounting policies and practices the Company and its subsidiaries, and proposed changed thereto, to identify, measure, manage and/or control risks;
- (m) to review financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the risk management and internal control systems;
- (n) to report to the Board on the matters set out in this code provision;
- (o) to consider any other matters, as defined by the Board from time to time; and

- (p) to act as the key representative body for overseeing the Company's relations with the external auditor.

9. REPORTING PROCEDURES

- 9.1 Proper minutes of the Committee meetings shall be kept by the Secretary and shall be open for inspection by any Director at any reasonable time on reasonable notice by the Director.
- 9.2 Minutes of the Committee meetings shall record in sufficient details the matters considered by the Committee and decision reached, including any concerns raised by the Committee members or dissenting view.
- 9.3 The Secretary should keep full minutes of all Committee meetings. Draft and final versions of minutes of the Committee meetings should be sent to all members for their comments and records respectively, in both cases within a reasonable time after the meeting.

Note: If there is any inconsistency between the English and Chinese versions of this terms of reference, the English version shall prevail.