



## CHINA GROUND SOURCE ENERGY LIMITED

中國地能有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8128)

### AUDIT COMMITTEE - TERMS OF REFERENCE

#### **1. Membership**

- 1.1 The members of the audit committee (the “Committee”) shall be appointed by the board of directors of the Company (the “Board”) from amongst the Non-Executive Directors of the Company and shall consist of not less than three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. A quorum shall be two members.
- 1.2 The majority of the Committee members must be independent non-executive directors of the Company.
- 1.3 The Chairman of the Committee, who should be an independent non-executive director, shall be appointed by the Board.

#### **2. Secretary**

- 2.1 The Company Secretary shall act as the secretary of the Committee.

#### **3. Attendance at meetings**

- 3.1 The Chief Financial Officer of the Group and representatives of the external auditors shall normally attend meetings at the invitation of the Committee.
- 3.2 Meetings shall be held not less four times a year.

- 3.3 The Audit Committee shall meet with the external auditors at least twice each year. However, at least once a year the Committee shall meet with the external auditors without executive Board members present. The Company's external auditor may request that a meeting be held if they consider it necessary.

#### **4. Meetings**

- 4.1 Notice of any meetings has to be given at least 14 days prior to any such meeting being held, unless all Members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a Member shall be deemed waiver of the requisite length of notice by the Member. Notice of any adjourned meetings is not required if adjournment is for less than 14 days.
- 4.2 Meetings could be held in person, by telephone or by video conference. Members may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.
- 4.3 A resolution in writing signed by all the Members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.
- 4.4 Full minutes shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes shall be circulated to all Members for their comment and records within a reasonable period of time after the meeting. Such minutes shall be open for Directors' inspection

#### **5. Annual General Meeting**

- 5.1 The Chairman of the Audit Committee or in his/her absence, another Member (who must be an independent non-executive director) of the Audit Committee, shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Audit Committee's activities and their responsibilities.

#### **6. Authority**

- 6.1 The Committee is authorised by the Board to inspect all accounts, books and records of the Company.

6.2 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

6.3 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.

## **7 Duties**

### *Relationship with the Company's auditors*

7.1 The duties of the Committee shall be:

7.1.1 to be primarily responsible for making recommendation 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 its resignation or dismissal;

7.1.2 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;

7.1.3 to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

### *Review of the Company's financial information*

7.1.4 to monitor integrity of the Company's financial statements and the annual report and accounts, half-year report and quarterly report, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:

- (I) any changes in accounting policies and practices;
- (II) major judgmental areas;
- (III) significant adjustments resulting from audit;
- (IV) the going concern assumptions and any qualifications;
- (V) compliance with accounting standards; and
- (VI) compliance with the GEM Listing Rules and legal requirements in relation to financial reporting;

7.1.5 Regarding to 7.1.4 above:–

- (I) members of the Committee should liaise with the board and senior management 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 the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or external auditors;

### *Oversight of the Company's financial reporting system and internal control procedures*

7.1.6 to review the Company's financial controls, internal control and risk management systems;

7.1.7 to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

- 7.1.8 to consider major investigation findings on internal control matters as delegated by the board or on its own initiative and management's response to these findings;
- 7.1.9 where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- 7.1.10 to review the group's financial and accounting policies and practices;
- 7.1.11 to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 7.1.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 7.1.13 to report to the Board on the matters in the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules; and
- 7.1.14 to consider other topics, as defined by the Board.

## **8 Reporting responsibilities**

- 8.1 The Committee shall make whatever recommendations to the Board it deems appropriate or any area within its remit where action or improvement is needed.
- 8.2 The Committee shall report to the Board on any of the following irregularities which come to its attention:
  - (a) suspected frauds and other irregularities;

- (b) significant weaknesses in internal control and financial and other reporting;
- (c) non-compliance with policies and procedures of the Company; or
- (d) infringements of the applicable laws, rules and regulations.

8.3 The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.