恒實礦業
HENGSHI MINING

HENGSHI MINING INVESTMENTS LIMITED
恒實礦業投資有限公司

(incorporated in the British Virgin Islands and continued in the Cayman Islands with limited liability)

(Stock Code: 1370)

(the "**Company**")

Terms of Reference of Audit Committee

Revised and Approved by the Board of Directors of the Company on 3 December 2015

1. Constitution

The board ("**Board**") of directors ("**Directors**") of the Company has resolved to set up an audit committee of the Board ("**Committee**").

2. Objective

The main objective of the Committee is to be responsible for the relationship with the Company's auditors, review of the Company's financial information and monitoring of the Company's financial reporting system, risk management and internal control procedures. The Committee is accountable to the Board.

3. Composition

3.1 The Committee shall comprise three non-executive Directors and the majority of whom shall be independent non-executive Directors as defined in the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Members of the Committee shall meet the following requirements:

(a) members shall have skills and experience compatible with the Company's business;

(b) members shall have a certain level of financial knowledge; and

(c) at least one member who is an independent non-executive director shall have accounting or relevant financial management expertise in compliance with requirements on the qualifications of financial professionals of the Committee in the Listing Rules (as amended from time to time).

3.2 Members of the Committee shall be nominated by the chairman of the Board or the nomination committee of the Company, subject to election by a majority vote by all members of the Board.

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

3.4 Members of the Committee shall have the same term of office as their directorship and the term of office is renewable upon re-election. If members no longer act as Directors or independent non-executive Directors of the Company due to resignation or other reasons, they shall automatically lose their office as members of the Committee from the date when they no longer act as Directors or independent non-executive Directors. The Board shall arrange for replacements to fill the vacancies in accordance with the articles of association of the Company and these terms of reference.

3.5 Where the number of members of the Committee is less than two-thirds of the required number of members of the Committee due to the resignation or removal of members or other reasons, the Board shall arrange for replacements to fill the vacancies in a timely manner. The Committee shall suspend any exercise of duties and powers stipulated by these terms of reference before the number of members of the Committee reaches two-thirds of the required number of members of the Committee.

3.6 The Company's internal audit department responsible for internal audit shall be led directly by the Committee. It is a working body of the Committee.

4. Secretary

4.1 Save as otherwise appointed by the Committee, the secretary to the Committee shall be the company secretary of the Company.

4.2 The Committee may appoint the company secretary to handle the following routine affairs:

(a) distribute an agenda and related materials of the meeting to the members of the Committee 7 days prior to the convening of meetings;

(b) maintain minutes of meeting, sort out opinions of all members attending the meeting and deliver minutes to them for signing; and

(c) distribute draft and final versions of minutes of meeting to members of the Committee within 14 days upon conclusion of the meeting for their comments. The full minutes shall be maintained properly by the company secretary.

5. Powers

5.1 The Board authorizes the Committee to conduct any investigation within its scope of powers. The Committee shall have the powers to demand any information necessary from any employees of the Company and its subsidiaries (together, the "**Group**"), and all employees shall be instructed to cooperate with the Committee and satisfy any of its requests.

5.2 The Board authorizes the Committee to seek external legal advice or other independent professional advice, and may invite outsiders who possess relevant experience and professional knowledge to attend meetings if necessary to provide adequate resources to perform its duties.

5.3 The Committee shall report to the Board any suspicion of frauds or irregularities, failures of internal control or suspected infringement of laws, regulations and rules which come to its attention and are of sufficient importance to warrant the Board for attention.

5.4 Where the Board disagrees with the Committee's views over the selection, appointment, resignation or removal of the external auditors, the Committee will arrange for the "Corporate Governance Report" in the annual report to include an explanation of the Committee's views and the reasons why the Board has taken a different view.

6. Duties and Functions

The duties of the Committee are as follows:

Relationship with the Company's auditors

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the Company's external auditor, and to approve the remuneration and terms of engagement of the Company's external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the Company's 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. Should there be more than one auditor firm participating, the Committee shall ensure the coordination between them;

(c) to develop and implement policy on engaging the Company's 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

(d) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, 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 Listing Rules and legal requirements in relation to financial reporting;

(e) Regarding (d) above:–

   (i) Members should liaise with the Board and senior management of the Company 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 auditors;

(f) to discuss with the Company's external auditors questions and doubts arising in audit of interim and annual accounts, and other matters that the auditors wish to discuss (may conduct in the absence of the Company's management if necessary);

(g) to review the letter to the Company's management from the Company's external auditors and the management's response;

(h) if the Company's annual report includes statement about the Company's internal control system, to review such statement prior to submission for the Board's approval;

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

(i) to review the Company's financial reporting and controls, risk management and internal control systems;

(j) to discuss the risk management and internal control systems with the Company's management to ensure that management has performed its duty to have effective systems. 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;

(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) where an internal audit function exists in the Company, to ensure co-ordination between the Company's internal and external auditors, and to ensure that the Company's internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(m) to review the financial and accounting policies and practices of the Group;

(n) 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;

(o) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(p) to report to the Board on the matters in this terms of reference;

(q) to consider other topics, as defined by the Board;

Others

(r) to review arrangements: employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(s) to act as the key representative body for overseeing the Company's relations with the Company's external auditor; and

(t) to conform to any requirement, direction, and regulation that may from time to time be contained in the memorandum and articles of association of the Company or imposed by the Listing Rules or applicable law.

7. Frequency and Procedures of Meetings

7.1 There shall be at least two meetings of the Committee annually to be convened and held by attending in person, by telephone or video conference. If necessary, the Committee shall convene interim meetings.

7.2 The Committee shall coordinate with the Company in the announcement of interim reports and annual reports and shall convene a regular meeting at least before each report announcement. The chairman of the Committee may convene meetings at his/her discretion or upon the request of the external or internal auditor. The Board or any one member of the Committee may also request for the convening of meetings of the Committee.

7.3 Regular and interim meetings of the Committee may be convened in the on-site form or by off-site means of communication.

7.4 Notice of regular meetings of the Committee shall be despatched seven days prior to the meeting whereas notice of interim meetings shall be despatched five days before the meeting.

7.5 Meetings shall be presided over by the chairman of the Committee and the chairman, if unable to attend, may appoint another member who is an independent non-executive Director to preside over the meeting.

7.6 Meetings of the Committee shall be held by more than two-thirds of the members attending the meeting. Each member of the Committee has one voting right. Resolutions adopted at the meetings shall take effect upon approval by more than one-half of all members (including those members who have not attended the meeting in person).

7.7 The Committee shall vote on a registered show of hands at the meetings. At interim meetings, the Committee may vote by facsimile or telephone and resolutions shall be adopted by facsimile at which members attending the meeting shall sign provided that members may fully express their opinions. If voting by other means of communication is adopted, members of the Committee who have signed the meeting resolutions shall be deemed to have attended the relevant meeting and have agreed to the contents of the resolutions.

7.8 The person-in-charge of the internal audit department may sit in the meetings of the Committee. When necessary, the Committee may invite Directors, external advisers or other individuals to attend the meetings but such executive Directors, advisers or individuals are not entitled to vote at the meetings.

7.9 Members attending the meeting shall maintain the confidentiality of all matters discussed at the meeting. Unauthorized disclosure of the relevant information shall be prohibited.

7.10 Full minutes of meetings should be kept by the secretary to the Committee. Minutes shall record matters considered and decisions reached by the Members in details, including any doubt or disagreement raised by the Members. Draft and final versions of the minutes of the meetings should be sent to all Members for their comment and records by secretary of the committee within 14 days after the meetings.

8. Report

Chairman of the Committee or other Member who is authorized by the Chairman of the Committee to chair the meetings shall report to the Board after each meeting of the Committee.

9. Availability and update of the terms of reference

These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. the Listing Rules) in Hong Kong. These terms of reference shall be made available to the public by including the information on the Company's website and the Stock Exchange's website.

10. Interpretation

Interpretation of these terms of reference shall belong to the Board.

These terms of reference are prepared in Chinese. In case of any inconsistency between the Chinese version and the English version, the English version shall prevail.