

# **HANS ENERGY COMPANY LIMITED**

## **Audit Committee: Terms of Reference**

### **1. GENERAL**

#### **1.1 Introduction**

The Board hereby approved and authorized the establishment of the Audit Committee.

#### **1.2 Organization**

These Terms of Reference govern the operation of the Audit Committee.

#### **1.3 Membership**

The Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not less than three members, a majority of whom should be independent.

The Chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.

Former partner of the Company's existing auditing firm shall be prohibited from acting as a Member of the Audit Committee for a period of one year commencing on the later of (a) the date of his/her ceasing to be a partner of the firm; or (b) the date of his/her ceasing to have any financial interest in the firm.

#### **1.4 Meetings**

The Committee shall meet as frequently as required but at least two times a year, and the external auditors must attend at least two meetings per year. Meetings could be held in person, by telephone or by video conference.

The Company Secretary shall be the secretary of the Committee, who will keep full minutes of Committee meetings.

#### **1.5 Reporting**

The Committee shall report its actions to the Board.

### **2. PURPOSE**

The Audit Committee assists the Board in discharging its responsibilities relating to the application of financial reporting standards and internal control principles. In addition, the Committee shall maintain an appropriate relationship with the Company's external auditors.

### **3. DUTIES AND RESPONSIBILITIES**

The duties of the Audit Committee are:

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

- 3.1 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 resignation or dismissal of that auditor;
- 3.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 3.3 to develop and implement policy on engaging an external auditor to supply non-audit services. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- 3.4 to act as the key representative body for overseeing the Company's relations with the external auditors;

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

- 3.5 to monitor integrity of all financial statements and annual report and accounts for publication, and to review significant financial reporting judgments 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.

Regarding 3.4 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 external auditor; and
- (ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports 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.

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

- 3.6 to review the Company's financial controls, internal control and risk management systems;
- 3.7 to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system, with regards to the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- 3.8 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;
- 3.9 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;
- 3.10 to review the group's financial and accounting policies and practices;
- 3.11 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;
- 3.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 3.13 to establish and review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters; and to review such arrangements. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- 3.14 to report to the Board on the matters in the Code Provision; and
- 3.15 to consider other topics, as defined by the Board.

**4. AUTHORITY**

- 4.1 The Audit Committee is authorized by the Board to investigate, and to report to the Board, any matters within these 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;

- 4.2 The Committee is authorized by the Board where necessary to have access to professional advice; and to secure the attendance of outsiders with relevant experience and expertise if the Committee considers this necessary;
- 4.3 The Committee shall be provided with sufficient resources to perform its duties; and
- 4.4 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Committee has right to arrange for the corporate governance report in the annual report of the Company to include an explanation of the Committee's view and the reasons why the Board has taken a different view.

**Approved by the Board on 17 June 2005 and revised on 27 March 2012**

*The Chinese version of this document is for reference only.*

*In case of any discrepancies or inconsistency between the English version and Chinese version, the English version prevails.*