



**CHINA ENVIRONMENTAL RESOURCES GROUP LIMITED**  
**中國環境資源集團有限公司**

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

**(Stock Code: 1130)**

**TERMS OF REFERENCE FOR  
THE AUDIT COMMITTEE**

**Constitution**

1. The audit committee (“the Committee”) was formed pursuant to the board of directors’ resolution (“the Board”) of China Environmental Resources Group Limited (“the Company”).

**Membership**

2. The Committee shall be appointed by the Board from amongst the non-executive directors and shall consist of not less than three members, a majority of whom should be independent non-executive directors and at least one independent non- executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A quorum of the meetings of the Committee shall be two members.
3. The Chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.
4. An non-executive director who is a former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Committee for a period of two year from (a) the date of his/her ceasing to be partner of the firm; or (b) the date of his/her ceasing to have any financial interest in the firm, whichever is later.

**Attendance at meetings**

5. Attendees shall normally include Committee’s members, the finance director, the head of internal audit (where an internal audit function exists), a representative of the external auditors and those with meaningful input to the Committee’s activities. However, at least once a year the Committee shall meet with the external and internal auditors (if any) without executive Board members and management present.

6. The company secretary shall be the secretary of the Committee. The secretary of the Committee or in his absence, his representative or any one member, shall be the secretary of the meetings of the Committee.

### **Frequency of meetings**

7. Meetings of the Committee shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

### **Authority**

8. 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.
9. 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.

### **Responsibility, power and discretion**

10. The Committee shall have the following responsibilities, powers and discretion:

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

- A. to be primarily responsible for making recommendations 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 question of its resignation or dismissal;
- B. to review and monitor the external auditor's independence and objectivity;
- C. to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- D. 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 reasonable conclude to be part of the audit firm nationally or internationally;

- E. to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- F. to act as the key representative body for overseeing the Company's relations with the external auditor;

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

- G. to monitor integrity of the Company's financial statement and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review any significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee shall focus particularly on:
  - i. any changes in accounting policies and practices;
  - ii. major judgemental 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;
- H. Regarding (G) above:
  - i. members must 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 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, reporting function, compliance officer or auditors;

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

- I. to review the Company's financial controls, and unless expressly addressed by a separate board risk committee of the Board, or by the Board itself, to review the Company's risk management and internal control systems;
- J. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include 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, 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;
- M. to review the group's financial and accounting policies and practices;
- 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 the Corporate Governance Code;
- Q. to consider other topics, as defined by the Board; and
- R. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

### **Reporting procedures**

- 11.(a) Chairman of the Committee who chair the meetings or other member of the committee who is authorised by the chairman of the Committee to chair the meeting shall report to the Board after each meeting of the Committee.
- 11.(b) Full minutes of the meetings of the Committee should be kept by the secretary of the Company, which should record in sufficient detail the matters considered and decisions reached, including any concerns raised by Committee members or dissenting views expressed. Draft and final versions of minutes of the Committee meetings should be sent to all members of the Committee for their comment and records respectively within a reasonable time after the meeting.
- 11.(c) The secretary of the Committee shall circulate the minutes of meetings of the Committee to all members of the Board.