

# **CHINA PRECIOUS METAL RESOURCES HOLDINGS CO., LTD**

## **中國貴金屬資源控股有限公司**

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

### **AUDIT COMMITTEE TERMS OF REFERENCE**

#### **Membership**

1. The Audit Committee (the "Committee") of China Precious Metal Resources Holdings Co., Ltd. (the "Company") shall consist of at least three members appointed by the board of directors of the Company (the "Board") from time to time. Members of the Committee shall be confined to non-executive directors only. The majority of the members shall be independent non-executive directors as required under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited. At least one member of the Committee must be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.
2. The chairman of the Committee shall be appointed by the Board and must be an independent non-executive director of the Company.
3. The company secretary of the Company shall be the secretary of the Committee. The Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Committee.

#### **Frequency and proceedings of meetings**

4. The Committee shall meet at least twice each year with the external auditor to review and discuss the financial report and accounts. Additional meetings may be convened by the chairman of the Committee as and when necessary.
5. Meetings of the Committee shall be convened by the secretary of the Committee at the request of any member thereof.
6. The quorum of a meeting shall be two members of the Committee.
7. Members of the Committee may participate in a meeting by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously.
8. Resolutions of the Committee at any meeting shall be passed by a majority of votes of the Committee members present.

9. A resolution in writing signed by all Committee members shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.
10. Minutes shall be kept by the secretary of the Committee. Draft and final versions of minutes shall be circulated to all Committee members for their comments and records respectively within a reasonable period of time after the meeting.
11. The Committee shall report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report the findings and recommendations of the Committee to the Board.

### **Authority**

12. The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.
13. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
14. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Committee will arrange for the Corporate Governance Report in the Annual Report to include a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
15. The Committee is to be provided with sufficient resources to perform its duties.

### **Responsibility**

16. The Committee is to serve as a focal point for communication between other directors, the external auditor and the internal auditor as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.
17. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (the "Group"), and as to the adequacy of the external and internal audits.

### **Duties, powers and functions**

18. The Committee is:

*Relationship with the Company's auditor*

- (a) 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;
- (b) to review and monitor the external auditor's independence, 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 engaging the 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 the integrity of the Company's financial statements and annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports , 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 assumption 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 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 auditors.

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

- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) 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;
- (h) 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;
- (i) where an internal audit function exists, to ensure coordination between the internal and external auditors and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to the management about the accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the Company's external auditor's management letter;
- (m) to report to the Board on the matters set out in this Terms of Reference;
- (n) 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;
- (o) to consider other topics, as defined by the Board;
- (p) to do any such things to enable the Committee to perform its powers and functions conferred on it by the Board; and
- (q) to conform to any requirements, direction and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

### **Annual General Meeting**

19. The chairman of the Committee or in his absence, another member of the Committee or failing this, his duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to questions at the annual general meeting on the Committee's work and responsibilities.

*Revised and effective on 23 March 2012*