

SHOUGANG FUSHAN RESOURCES GROUP LIMITED

AUDIT COMMITTEE

TERMS OF REFERENCE

(As adopted on 11 December 2009 and revised on 1 April 2012 and 21 December 2015 respectively)

Constitution

1. The audit committee (the “Committee”) is a committee of the board of directors (the “Board”).

Membership

2. The Committee members shall be appointed by the Board from amongst the non-executive directors of the Company and a majority of whom should be independent non-executive directors of the Company.
3. A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Committee for a period of 1 year from the date of his ceasing:
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm,whichever is later.
4. The Chairman of the Committee shall be an independent non-executive director and shall be appointed by the Board from time to time.
5. A Committee member may, by notice in writing signed by him/her delivered to the registered office of the Company or at a meeting of the Committee, appoint another non-executive director to act as his/her alternate in his/her place during his/her absence. An alternate Committee member shall be entitled to attend and vote as a Committee member at any such meeting and to perform all the functions of his/her appointor. If one shall attend any such meeting as an alternate for more than 1 Committee member, his/her voting rights shall be cumulative.

Secretary of Committee

6. The company secretary shall be the secretary of the Committee.

Convening of meetings

7. The Committee members may, and on request of a Committee member or the external auditor the secretary shall, call any meetings.

Attendance at meetings

8. A quorum shall be 2 Committee members.
9. The Finance Director (if any), the Head of Internal Audit (if any), the Head of Accounts/Finance Department and a representative of the external auditor shall normally attend meetings. Other directors of the Company, apart from the Committee members, have the right to attend any Committee meetings. The aforesaid persons shall not be counted in the quorum.
10. At least once a year the Committee shall meet with the external auditor without executive Board members present.
11. The Committee member 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 simultaneously.

Frequency of meetings

12. Meetings shall be held not less than twice a year.

Voting

13. A resolution shall be passed by a simple majority of votes.
14. A resolution in writing signed by all Committee members except such as are absent from Hong Kong shall (so long as they constitute a quorum) be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held. Any such resolution in writing may consist of several documents in same form each signed by one or more of the Committee members.

Authorities

15. 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.
16. The Committee is authorised by the Board to obtain outside independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

17. The duties of the Committee shall be:
 - (a) to make 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 questions of its resignation or dismissal;

- (b) to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and to 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 an external auditor to supply non-audit services and to report to the Board, identifying and making recommendations on any matters where action or improvement is needed. 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;
- (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 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;
- (e) Regarding (d) above:
 - (i) to liaise with the Board and senior management and to meet, at least twice a year, with the Company’s auditor; and
 - (ii) to 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 review the Company’s financial controls, risk management and internal control systems;
- (g) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. The 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 risk management and 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 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;
- (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 management about 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 external auditor's management letter;
- (m) to report to the Board on the matters in code provision C.3 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (as amended from time to time);
- (n) to consider other topics, as defined by the Board;
- (o) 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; and
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor.

Reporting procedures

18. Full minutes of the Committee meetings should be kept by the secretary of the Committee. 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, in both cases within a reasonable time after the meeting.
19. The Committee shall report to the Board on a regular basis and at least once each year to the Board with respect to its decisions and/or recommendations. The Committee may report its decisions and/or recommendations by way of reports or minutes.