



JINCHUAN GROUP INTERNATIONAL RESOURCES CO. LTD

金川集團國際資源有限公司

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

(Stock Code: 2362)

Terms of Reference – Audit Committee

(As at 28 March 2012)

Should there be any discrepancy between the English and Chinese versions of this Terms of Reference, the English version shall prevail.

## **The Audit Committee - Terms of Reference**

### **1 Objectives**

The purpose of the Audit Committee (the "Committee") of the Board of Directors (the "Board") is to:

- 1.1 improve the quality of financial reporting by reviewing the financial statements on behalf of the Board;
- 1.2 create a climate of discipline, risk management awareness and control which reduces the opportunity for fraud;
- 1.3 enable the non-executive Directors sitting on the Committee to contribute independent judgment and play a positive role;
- 1.4 assist the Chief Financial Officer by providing a forum in which he can raise issues of concern and get things done which might otherwise be difficult;
- 1.5 strengthen the position of the external auditors, by providing a channel of communication and forum for issues of concern;
- 1.6 provide a framework within which the external auditors can assert their independence in the event of dispute with the Management;
- 1.7 strengthen the position of the internal audit function, by providing greater degree of independence of the Management; and
- 1.8 increase public confidence in the credibility and objectivity of financial statements and the Board.

### **2 Constitution**

The Board hereby resolves to establish a committee of the Board to be known as the Audit Committee.

### **3 Membership**

- 3.1 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 (3) members.
- 3.2 Majority of the Committee members should be independent non-executive Directors.

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3.3 At least one (1) of the Committee members shall be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise.

3.4 A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Company's Audit Committee for a period of one (1) year commencing from the date of his ceasing:

(i) to be a partner of the firm; or

(ii) to have any financial interest in the firm,

whichever is the later.

### **4 Chairman**

The Chairman shall be selected amongst the independent non-executive Directors and shall be appointed by the Board.

### **5 Secretary**

5.1 The Company Secretary or his nominee shall be the secretary of the Committee.

5.2 The Company Secretary is appointed to facilitate communication between the Board and the Committee and to provide access to information required by the Committee members in pursuit of their duties.

### **6 Quorum and Attendance at Meetings**

6.1 Two (2) members of the Committee shall constitute a quorum provided that at least one (1) independent non-executive Director shall be present.

6.2 The Chief Financial Officer and a representative of the external auditors shall normally attend the meetings.

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### **7 Frequency of Meetings**

- 7.1 Meetings shall be held not less than twice a year.
- 7.2 The Committee shall meet prior to the finalization of the interim and annual results to discuss any issues arising from them.
- 7.3 At least twice a year the Committee shall conduct a meeting with the external and internal auditors (if any) and at least once such meeting should be without the presence of the executive Directors.
- 7.4 The Committee shall issue a schedule of agenda with foreseeable matters to be discussed in the coming year at the beginning of each year. This agenda shall be delivered to the Board.
- 7.5 The external auditors may request a meeting if they consider that is necessary.

### **8 Proceedings of Meetings**

- 8.1 A notice of meeting should be given at least seven (7) days in advance of a regular Committee meeting.
- 8.2 The agenda and the ancillary documents for the meeting should be sent to all Committee members at least three (3) days before the intended date of the Committee meeting.
- 8.3 Any member may request for Committee meetings by giving notice of not less than seven (7) days in writing to the Chairman of the Committee.
- 8.4 Questions arising at the Committee meeting shall be determined by a majority of votes of the members present, and in case of an equality of votes, the Chairman shall have a second or casting vote.

### **9 Minutes**

- 9.1 The Secretary of the Committee must ensure that full minutes are kept of all Committee meetings.
- 9.2 Draft and final versions of the minutes of the Committee meeting shall be sent to all Committee members for their comment and records respectively within reasonable time

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after the meeting.

- 9.3 Minutes of the Committee should be formally approved by the Committee before reporting to the Board.
- 9.4 Minutes shall be available for inspection at any reasonable time upon reasonable notice by any Director.
- 9.5 Minutes shall record in sufficient detail the matters considered by the Committee and the decisions reached, including any concerns raised by the Directors or dissenting views expressed.
- 9.6 The Committee shall circulate its meeting minutes to the Board (within reasonable time after the meeting), to keep the Board informed of the Committee's activities and recommendations on a regular basis.

### 10 **Authority**

- 10.1 The Committee is authorized by the Board to investigate into any activity within its terms of reference.
- 10.2 The Committee is authorized by the Board to obtain legal or other independent professional advice from outsiders and to invite outsiders with relevant experience and expertise to attend the Committee meetings if necessary.
- 10.3 The Committee 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.

### 11 **Duties**

The duties of the Committee are:

Relationship with external auditors

- (a) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment 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;

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- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the 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 (which 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) to supply non-audit services, and to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) to act as the key representative body for overseeing the Company's relations with the external auditor.

### Review of the Company's financial information

- (a) 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 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.
- (b) Regarding (a) 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 reports and accounts, it should give due

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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

- (a) to review the Company's financial controls, internal control and risk management systems;
- (b) to discuss the internal control system with management to ensure that the 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;
- (c) 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;
- (d) 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;
- (e) to review the Group's financial and accounting policies and practices
- (f) 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;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (h) to report to the Board on the matters set out in code on Corporate Governance Practices as required by the Hong Kong Stock Exchange;
- (i) to review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. 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; and
- (j) to consider other relevant topics raised by the Board.

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### 12 **Reporting**

12.1 The Committee shall report to the Board on a regular basis.

12.2 The Chairman of the Committee shall present periodic written reports of the Committee which address the work and findings of the Committee to the Board. The frequency for the submission of the said report varies but as a minimum, it has to be submitted on an annual basis.

12.3 Reports to the Board shall cover, as appropriate, the work and findings of the Committee under the following areas:

- (a) Relationship with external auditor;
- (b) Review of financial information; and
- (c) Oversight of the Company's financial reporting system and the internal control procedures

The secretary of the Committee shall circulate the minutes of meetings and reports of the Committee to all members of the Board.

\* *For the purpose of the terms of reference, "Senior Management" refers to the same category of persons as referred to in the Company's annual report.*