

XINYI ENERGY HOLDINGS LIMITED

信義能源控股有限公司

(incorporated in the British Virgin Islands with limited liability)
(the “Company”)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE ADOPTED BY THE BOARD ON 22 NOVEMBER 2018

1 Membership

- (a) The audit committee (hereinafter referred to as the “**Committee**”) shall be appointed by the board (the “**Board**”) of directors (the “**Director(s)**”) of the Company 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 (the “**INED(s)**”). At least one member must be an INED 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 (the “**Listing Rules**”). The constitution of the Committee shall comply with the requirements of the Listing Rules from time to time. R3.21

The chairman of the Committee shall be an INED and a member of the Committee appointed by the Board.

- (b) 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: App 14 - C.3.2
- (i) to be a partner of the firm; or
 - (ii) to have any financial interest in the firm, whichever is later.

2 Attendance at Meetings

- (a) The quorum for a meeting of the Committee shall be two members of the Committee.
- (b) The Committee may invite any director, executive, external auditor or other individuals (including, but not limited to, the chief financial officer, financial controller, head of internal audit (if any)) to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.
- (c) The secretary of the Company shall be the secretary of the Committee who should attend all meetings of the Committee.

- (d) Members of the Committee may participate in a meeting of the Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting.

3 Frequency of Meetings

Meetings of the Committee shall be held not less than twice a year. The external auditors or any members of the Committee may request a meeting if they consider that a meeting is necessary and upon the receipt of such request, the secretary of the Committee shall convene such a meeting as soon as reasonably practicable and having regard to the convenience of all members with priority given to the INEDs.

4 Committee's Resolutions

A resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee and may consist of several documents in like form each signed by one or more of the members of Committee. Such resolution may be signed and circulated by fax or other electronic communications. This provision is without prejudice to any requirement under the Listing Rules for a Board or Committee meeting to be held.

5 Authorities

- (a) 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 of the Company or executive Director and such persons are directed to co-operate with any request made by the Committee.
- (b) The Committee is authorised by the Board, and at the reasonable expense of the Company, to obtain independent legal or other independent professional advice and to secure the attendance of independent professional advisers with the relevant experience and expertise if it considers this necessary.
- (c) The Committee shall report to the Board any suspected frauds or 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.
- (d) The authority of the Committee should be provided upon request from the shareholders of the Company and the role of the Committee should be explained in the corporate governance report in the annual report of the Company.
- (e) The Committee should be provided with sufficient resources to perform its duties.

App 14-
C.3.6

6 General Responsibilities

- (a) The Committee shall serve as a focal point for communication between other Directors, the external auditor and the internal auditors (if any) as regards their duties relating to financial and other reporting, risk management, internal controls,

external and internal audits and such other matters as the Board determines from time to time.

- (b) The Committee shall 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 risk management and internal control systems of the Company and its subsidiaries (the “**Group**”), and as to the adequacy of the external and internal audits.
- (c) The Committee shall fulfill other responsibilities as required by the Listing Rules from time to time.
- (d) The Committee shall review arrangements employees of the Company may 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 App 14-
C.3.7(a)
- (e) The Committee shall act as the key representative body for overseeing the Company’s relations with the external auditor. App 14-
C.3.7(b)

7 Duties

The duties of the Committee shall be:

Relationship with the Company’s auditor

- (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 questions of its resignation or dismissal. Where the Board disagrees with the Committee’s view on the selection, appointment, resignation or dismissal of the external auditor, the Company should include in the corporate governance report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view; App 14-
C.3.3(a)
- (b) to consider the plan for each year’s audit submitted by the external auditor and discuss the same at a meeting if necessary;
- (c) to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. In this connection, the Committee shall: App 14-
C.3.3(b)
 - (i) obtain from the external auditor annually, information about policies and process for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; App 14-
C.3.3
Note
1(ii)
 - (ii) conduct annual review of all non-audit services performed by the external auditor and the related fee levels, and to ensure that such services do not impair the independence of the external auditor; and

- (iii) consider the Company’s policies on hiring employees or former employees of the external auditor and monitoring the application of these policies and consider whether there has been or appears to be any impairment of the external auditor’s judgment or independence for the audit. App 14-
C.3.3
Note 2
- (d) to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences; App 14-
C.3.3(b)
- (e) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, “external auditor” include 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; App 14-
C.3.3(c)

App 14-
C.3.3
Note 1(ii)

Review of financial information of the Company

- (f) to monitor integrity of the Company’s financial statements, 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 assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting.App 14-
C.3.3(d)
- (g) Regarding to (f) above: App 14-
C.3.3(e)
 - (i) members of the Committee should liaise with the Board and senior management of the Company 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, and 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 auditor;

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

- | | | |
|-----|---|-----------------|
| (h) | to review the Company's financial controls, internal control and risk management systems; | App 14-C.3.3(f) |
| (i) | 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 the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function; | App 14-C.3.3(g) |
| (j) | to consider major investigations 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; | App 14-C.3.3(h) |
| (k) | 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; | App 14-C.3.3(i) |
| (l) | to review the Group's financial and accounting policies and practices; | App 14-C.3.3(j) |
| (m) | to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response; | App 14-C.3.3(k) |
| (n) | to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; | App 14-C.3.3(l) |
| (o) | to report to the Board on the above matters; and | App 14-C.3.3(m) |
| (p) | to consider other topics, as defined by the Board. | App 14-C.3.3(n) |

8 Reporting Procedures

- | | | |
|-----|--|-----------------------|
| (a) | The Committee shall report its findings, recommendations and decisions to the Board; | App 14-D.2.2 |
| (b) | Full minutes of the Committee meetings should be kept by the secretary of the Committee and should be open for inspection at any reasonable time on reasonable notice by any Director. Draft and final versions of minutes of Committee meetings shall be sent to all members of the Committee for their comment and records within a reasonable time after the meeting; and | App 14-A.1.4
C.3.1 |
| (c) | Copies of the minutes of meetings of the Committee shall be provided to the Board at its meetings. | |

9 Availability and Update of the Terms of Reference

- (a) These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. the Listing Rules) in Hong Kong; and
- (b) These terms of reference or its updated and revised versions should be published on the website of the Company and the website of The Stock Exchange of Hong Kong Limited.

App 14-
C.3.4

(The translation into Chinese language of this document is for reference only. In case of an inconsistency, the English version shall prevail.)