

HONG KONG RESOURCES HOLDINGS COMPANY LIMITED

(the “Company”)

Terms of Reference of Audit Committee

(the “Committee”)

1. Membership

- 1.1 Members of the Committee shall be appointed by the board of directors of the Company (the “Board”) and shall consist of not less than three members, a majority of whom shall be independent non-executive Directors. The Committee shall comprise non-executive Directors only.
- 1.2 Appointments to the Committee shall be for a period of up to 3 years, which may be extended by the Board provided that a majority of the committee members remain independent non-executive Directors.
- 1.3 The Committee shall be chaired by an independent non-executive Director.
- 1.4 One of the members of the Committee should have 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.
- 1.5 A former partner of the Company’s auditing firm shall be prohibited from acting as a member of the Committee for a period of one year from the date of his ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is later.
- 1.6 The chief financial officer, the head of internal audit and a representative of the external auditors shall normally attend meetings. Other members of the Board may also attend meetings of the Committee.

2. Secretary

- 2.1 Unless it is agreed otherwise, the company secretary shall assume the role of the secretary of the Committee.

3. Quorum

- 3.1 The quorum for meetings of the Committee shall be three members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4. Frequency of meetings

- 4.1 The Committee shall meet at least twice a year. At least one meeting shall be held with the external auditors without any executive Directors being present. The external auditors may request a meeting should they consider necessary.
- 4.2 Special meetings may be convened as required. The Secretary of the Committee will convene a meeting on receipt of a request by the external or internal auditors.

5. Notice of Meetings

- 5.1 Meetings of the Committee shall be convened by the Chairman of the Committee.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend at least 7 days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate at least 3 clear days in advance of the meeting.

6. Minutes of meetings

- 6.1 Minutes of meetings of the Committee shall be kept by the secretary of the meeting (the company secretary). Draft and final versions of the minutes shall be sent to all committee members for their comment and records within a reasonable time (generally in 14 days) after the meeting.

7. Annual General Meeting

- 7.1 The Chairman of the Committee should, as far as practicable, attend the Annual General Meeting and make himself/ herself available to respond to any shareholder questions on the Committee activities.

8. Duties

- 8.1 The duties of the Committee are:
 - (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any questions of resignation or dismissal of such auditors;
 - (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences. The Committee should ensure co-ordination between auditing firms should more than one auditing firm be involved;

- (c) to develop and implement policy on the engagement of external auditors to supply non-audit services. For this purpose, the Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, interim 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;
- any changes in accounting policies and practices;
 - major judgmental areas;
 - significant adjustments resulting from audit;
 - the going concern assumptions and any qualifications;
 - compliance with accounting standards; and
 - compliance with listing rules and legal requirements.

In performing its duties set out in this paragraph, the Committee should consider any significant or unusual items that are, or may need to be, reflected in the annual report and accounts, interim report and, if prepared for publication, quarterly reports, 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 auditors. In addition, the Committee members must liaise with the Company's Board and senior management;

- (e) to oversee the Company's financial reporting system and internal control procedures:
- to review the Company's financial control, internal control and risk management systems;
 - to discuss the internal control system with management and to ensure that the management has performed its duty to establish 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;
 - 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;
 - to review the Company's statement on internal control system (where such statement is included in the annual report) before submission to the Board;

- where an internal audit function exists, to review the internal audit plan and ensure co-ordination between the internal and external auditors. The Committee shall also ensure that the internal audit function is adequately resourced and has appropriate standing within the Company. The Committee shall also review and monitor its effectiveness;
 - the head of internal audit is directly accountable to the Committee and the Board. The Committee shall review the internal audit report and report to the Board and make recommendations;
 - to review the group's financial and accounting policies and practices;
 - to review the external auditors' management letter, any material queries raised by the auditors to the management about accounting records, financial accounts or systems of control and management's response;
 - to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
 - to review arrangements by which 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 such matters and for appropriate follow up action; and
 - to act as the key representative body for overseeing the Company's relations with the external auditors.
- (f) to report to the Board on the matters in these terms of reference, including its decisions and recommendations; and
- (g) to consider other topics as defined by the Board.

9. Reporting Responsibilities

9.1 The Committee Chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

9.2 The Committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

10. Authorities

10.1 The Board authorizes the Committee:

- (a) to perform activities within the scope of these terms of reference;
- (b) to investigate any activity within its terms of reference. The Committee is also 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; and
- (c) to engage independent legal or other professional advisers as it deems necessary to carry out its duties. If the Committee considers necessary, it may also secure the attendance of any person with relevant experience and expertise at any meeting.

11. Relationship with the External Auditors

11.1 The relationship of the Committee with the External Auditors are:

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and any questions of its resignation or dismissal;
- (b) to review and approve the remuneration and terms of engagement of the external auditors;
- (c) to review and monitor the external auditors' independence and objectivity, and the effectiveness of the audit process in accordance with applicable standard;
- (d) to review the external auditors' proposed audit scope and approach and reporting obligations before the audit commences;
- (e) to discuss with the external auditors any audit problems encountered in the audit work and the appropriateness of the accounting policies applied;
- (f) to ensure that significant findings and recommendations made by the external auditors and management's proposed responses are received, discussed and appropriately acted on; and
- (g) to develop and implement policy on the engagement of the external auditors to supply non-audit services, if any, to ensure that provisions of such services would not impair the independency and objectivity of the external auditors. For this purpose, external auditors 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.

12. Internal Audit

12.1 The relationship of the Committee with the Internal Auditors consists of the following:

- (a) to ensure co-ordination between internal and external auditors;
- (b) to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (c) to review and monitor the effectiveness of the internal audit function; and
- (d) to ensure that significant findings and recommendations made by the internal auditors and management's proposed response are received, discussed and appropriately acted on.

13. Performance review

13.1 The Committee should regularly update the Board about its activities and any matters that may significantly impact on the financial condition or affairs of the business and make appropriate recommendations.