



KUNLUN ENERGY COMPANY LIMITED
(incorporated in Bermuda with limited liability)
昆 侖 能 源 有 限 公 司

(Stock Code: 00135)

**Audit Committee
Terms of Reference**

***(with effect from 29 March 2012 according to Board
Resolution dated 29 March 2012)***

1. Constitution

Pursuant to the resolutions passed on 8 December 1998 by the Board of Directors of the Company ("Board"), an Audit Committee (the "Committee") was established. The Board has adopted this set of terms of reference for Committee by a resolution passed on 29 March 2012.

2. Membership

- 2.1 The Committee shall be appointed by the Board from amongst the Non-executive Directors of the Company and must consist of a minimum of three members. LR3.21
- 2.2 The majority of the members of the Committee shall be Independent Non-executive Directors and at least one Independent Non-executive Director shall have the appropriate professional qualifications or accounting or related financial management expertise. LR3.21
- 2.3 Chairman of the Committee shall be appointed by the Board and shall be an Independent Non-executive Directors. LR3.21
- 2.4 In the event that the Committee comprises a Non-executive Director who is a former partner of the Company's existing auditing firm, such Non-executive Director shall be prohibited from acting as a member of the Committee for a period of one year from the later of:
- (i) the date of his/her ceasing to be a partner of the firm; or
 - (ii) the date of his/her ceasing to have any financial interest in the firm. LR3.2
- 2.5 The quorum of the Committee shall be any two members of the Committee.
- 2.6 The Company Secretary of the Company shall be the secretary for the Committee. LR3.1

3. Attendance of meetings

- 3.1 Unless otherwise stated herein, the meetings are governed by the provisions contained in the Company's Bye-Laws for regulating the meetings and proceedings of Directors.
- 3.2 The Chief Financial Officer, Head of Internal Audit, and a representative of the external auditors of the Company shall normally attend meetings of the Committee to answer specific points and concerns. Other Board members, employees, external advisers with relevant experience and expertise and such other persons who are appropriate shall also have the right of attendance.
- 3.3 At least once a year, representatives of the Company's external auditors shall meet with the Committee without any Executive Directors being present, except by invitation of the Committee, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise. Note 1(iii)
- 3.4 All Committee members are expected to attend each meeting, in person or via telephone conference, video conference or similar communication equipment by means of which all persons participating in the meeting are capable of hearing each other.
- 3.5 Only members of the Committee are entitled to vote at the meetings.
- 3.6 Resolutions of the Committee at any meetings shall be passed by a majority of votes of the members present.
- 3.7 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 duly convened and held.
- 3.8 Meeting agendas will be prepared and provided in advance to members of the Committee, along with appropriate briefing materials. Minutes of each meeting shall be prepared and kept by the secretary of the Committee. Draft and final versions of minutes shall be circulated to all members for their comments and records respectively, in both cases within a reasonable period of time after the meeting. Such minutes shall be open for Directors' inspection at any reasonable time on reasonable notice by any Director. C.3.1
A.1.4
A.1.5
- 3.9 Chairman of the Committee or another member of the Committee shall attend the Board meetings at which the financial statements are approved.

4. Frequency of meetings

Meetings shall be held not less than twice a year. The Committee shall also meet as and when necessary to discharge its duties. The external auditors may request a meeting if they consider necessary.

5. *Authority*

- 5.1 The Committee is authorized by the Board to perform activities within the scope of these terms of reference. It is also authorized to seek any information of the Company, its subsidiaries or affiliates it may be required for the purpose of discharging its duties from any member of the management and employee of the Company and all employees of the Company are directed to co-operate with any request made by the Committee.
- 5.2 The Committee is authorized by the Board to seek independent professional advice from external counsel or independent professional advisers in appropriate circumstances at the Company's expense to discharge its duties.
- 5.3 The members of the Committee can have access to the advice and services of the Company Secretary of the Company who is responsible to the Committee for ensuring that Committee procedures, and all applicable rules and regulations, are followed.
- 5.4 The Committee shall be provided with sufficient resources to perform its duties. C.3.6

6. *Responsibilities, Powers and Functions*

The responsibility of the Committee is to assist the Board in fulfilling its audit duties through the review and supervising of the Company's financial reporting and internal control system and to assist the Board with any other responsibilities as may be delegated by the Board from time to time. The Committee shall have the following responsibilities:

Relationship with the Company's External Auditors

- 6.1 be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal; C.3.3(a)
- 6.2 to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; C.3.3(b)
- 6.3 to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences, and to ensure co-ordination where more than one audit firm is involved; C.3.3(b)
- 6.4 to develop and implement policy on engaging an external auditors 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; C.3.3(c)
- 6.5 to report to the Board, identifying and making recommendations on any matters where action or improvement is needed; C.3.3(c)
- 6.6 to act as the key representative body for overseeing the Company's relations with the external auditors; C.3.7(b)

Review of Company's Financial Information

- 6.7 to monitor the integrity of the company's financial statements and annual report and accounts, half-year report and quarterly reports (if applicable), 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: C.3.3(d)
- (a) any changes in accounting policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from the audit;
 - (d) the going concern assumption and any qualifications;
 - (e) compliance with accounting standards; and
 - (f) compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and legal requirements in relation to financial reporting;

6.8 regarding 6.7 above:-

- (a) members of the Committee should liaise with the Board and senior management; C.3.3(e)
 - (b) the Committee must meet, at least twice a year, with the Company's external auditors; and
 - (c) 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;
- 6.9 to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);

Oversight of the Company's Financial Reporting System and Internal Control Procedures

- 6.10 to review the Company's financial controls, internal control and risk management systems; C.3.3(f)
- 6.11 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 experiences, training programmes and budget of the Company's accounting and financial reporting function; C.3.3(g)
- 6.12 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; C.3.3(h)
- 6.13 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; C.3.3(i)
- 6.14 to review the Group's financial and accounting policies and practices; C.3.3(j)

- 6.15 to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response; C.3.3(k)
- 6.16 to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter; C.3.3(l)
- 6.17 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 and ensure that proper arrangements are in place for the fair and independent investigation of such these matters and for appropriate follow-up action; C.3.7(a)
- 6.18 to report to the Board on the matters in the code provision C.3 in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules; C.3.3(m)
- 6.19 to develop, formulate and review the Company's policies and practices on corporate governance and make recommendations to the Board; D.3.1(a)
- 6.20 to review and monitor the training and continuous professional development of Directors and senior management; D.3.1(b)
- 6.21 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; D.3.1(c)
- 6.22 to develop, review and monitor the code of conduct and compliance manual(s) (if any) applicable to employees and Directors; D.3.1(d)
- 6.23 to review the Company's compliance with the code and disclosure in the Corporate Governance Report; D.3.1(e)

Others Responsibilities

- 6.24 to report to the Board on the matters in the Corporate Governance Code provisions;
- 6.25 to satisfy itself that proper business ethics have been followed; and
- 6.26 to consider other topics and carry out other matters specifically referred to the Committee by the Board from time to time and report back to the Board on their discussion, findings or recommendations.

7. Disclosure

- 7.1 The Committee shall report to the shareholders in the Company's Corporate Governance Report the work performed during the year in discharging its responsibilities and duties.
- 7.2 Where the Board disagrees with the Committee's views on the selection, appointment and resignation or dismissal of the external auditors, the Committee shall include a statement, for inclusion to the Company's Corporate Governance Report, explaining its recommendation. The Board shall include in the same report the reason(s) why the Board takes a different view. C.3.5

8. Annual General Meetings

Chairman of the Committee or another member of the Committee shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Committee's activities and their responsibilities. E.1.2

9. Reporting Responsibilities

The Committee shall report to the Board on all matters in these terms of reference on a regular basis. C.3.3(m)
D.2.2

10. Incorporation of Amendments to the Listing Rules

10.1 These terms of reference have been prepared based on the Corporate Governance Code (the "Code") in Appendix 14 to the Listing Rules which will come into effect on 1 April 2012.

10.2 To the extent that there are any relevant amendments to the Code or the Listing Rules after the date of adoption of these terms of reference which the Company is expected to comply with (the "Relevant Amendments"), the Company will make corresponding changes to these terms of reference as soon as practicable to incorporate the Relevant Amendments. Pending such change, the Relevant Amendments shall be deemed to have been incorporated into these terms of reference from the date on which they come into effect.

10.3 To the extent that there are any relevant amendments to the Code or the Listing Rules after the date of adoption of these terms of reference which are for Company's guidance only, such amendments shall only be incorporated into these terms of reference after they have been duly adopted by the Board.

Remarks: "Senior management" refers to the same category of persons referred to in the Company's annual report.

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