

**中國節能海東青新材料集團有限公司**

**CECEP COSTIN New Materials Group Limited**

---

**Terms of Reference of the  
Audit Committee under  
The Board of Directors**

---

中國節能海東青新材料集團有限公司  
CECEP COSTIN New Materials Group Limited

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

Terms of reference of the  
Audit Committee under  
The Board of Directors

**1. Constitution of the Company**

On 12 May 2010, the board (the “Board”) of directors (the “Directors”) of CECEP COSTIN New Materials Group Limited (the “Company”) passed a resolution for establishing a committee of the Board known as the Audit Committee.

**2. Membership**

2.1 Members of the Audit Committee shall be appointed by the Board from amongst the non-executive Directors of the Company and shall consist of not less than three members, at least one of whom shall be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The majority of the members of the Audit Committee shall be independent non-executive Directors.

2.2 The chairman of the Audit Committee shall be an independent non-executive Director and shall be appointed by the Board.

2.3 A former partner of the Company’s existing auditing firm, which currently audits the accounts of the Company, should be prohibited from acting as a member of the Company’s Audit Committee for a period of one year 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 later.

**3. Secretary of the Audit Committee**

The Company Secretary or a person to be appointed by the Audit Committee from time to time shall be the secretary of the Audit Committee.

#### **4. Meeting**

- 4.1 Meetings shall be held not less than twice a year by the Audit Committee. Additional meetings should be held as and when the work of the Audit Committee demands. The Chairman of the Committee may convene additional meetings at his discretion. Additional meetings shall be held when the external auditor considers necessary.
- 4.2 A representative of the external auditing institution is entitled to attend meetings of the Audit Committee. The Audit Committee must hold meetings and liaise with the Directors, senior management of the Company and the representative of the external auditing institution as and when necessary. In addition, the Audit Committee shall meet with the external auditing institution at least once a year without the presence of any of the executive Directors of the Board.
- 4.3 The quorum of the Audit Committee shall be at least two members of the Audit Committee. All provisions under the Articles of Association of the Company governing meetings of the Board and the procedures thereof shall, mutatis mutandis, be applicable to governing the meetings of the Audit Committee and procedures thereof.
- 4.4 Members of the Audit Committee shall, prior to each meeting, declare their respective interests in the matters to be considered on such respective meetings. If a member of the Audit Committee or his associate(s) (as defined in the Listing Rules) is/ are materially interested in the matters to be considered on the meeting, the member shall have no voting rights and his attendance shall not be counted towards the quorum.
- 4.5 Minutes of meetings of the Audit Committee should record in sufficient detail the matters considered by members of the Audit Committee and decisions reached, including any concerns raised by members of the Audit Committee or dissenting views expressed. Draft and final versions of minutes of meetings of the Audit Committee should be sent by the secretary of the Audit Committee to all members of the Audit Committee for their comment and records within a reasonable time after the meeting is held. Full minutes of meetings of the Audit Committee shall be kept by the secretary of the Audit Committee and signed minutes shall be submitted to the Board.

#### **5. Authority**

- 5.1 The Audit Committee is authorized by the Board to investigate any activity within these terms of reference. The Audit Committee is authorized to seek any information it requires from any director or employee of the Company and its subsidiary(ies), and to require such director(s) or employee(s) to attend meeting(s) of the Audit Committee, provide information and answer the questions from the Audit Committee.

- 5.2 The Audit Committee is authorized by the Board to seek external legal or other independent professional advice, at the expense of the Company, and where it deems necessary, to invite participation from outsider(s) with relevant experience and expertise.
- 5.3 The Secretary of the Audit Committee is authorized by the Board to seek information required for discharging its duties.
- 5.4 The Audit Committee shall be provided with sufficient resources to perform its duties.

## **6. Duties**

The duties of the Audit Committee shall be:

### ***Relationship with the Company's auditors***

- 6.1 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;
- 6.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 6.3 to develop and implement policy on engaging an external auditor 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. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.
- 6.4 to act as the key representative body for overseeing the Company's relations with the external auditor;

### ***Review of the Company's financial information***

- 6.5 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 Audit 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;

6.6 with regard to Article 6.5 above:-

- (i) members of the Audit Committee should liaise with the Company's 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 report 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 auditors;

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

- 6.7 to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
- 6.8 to discuss the risk management and the 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;
- 6.9 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;
- 6.10 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;
- 6.11 to review the financial and accounting policies and practices of the Company and its subsidiaries (the "Group");

- 6.12 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;
- 6.13 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.14 to review arrangements employees of the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

***Corporate governance functions delegated by the Board***

- 6.15 to develop and review the Company's policies and practice on corporate governance and make recommendations to the Board;
- 6.16 to review and monitor the training and continuous professional development of Directors and senior management of the Company;
- 6.17 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- 6.18 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- 6.19 to review the Company's compliance with the Code and disclosure in the Corporate Governance Report of the Company;

***Others***

- 6.20 to report to the Board on the matters set out herein; and
- 6.21 to consider other topics, as defined by the Board.

**7. Annual General Meeting**

At the request of the Board, the chairman of the Audit Committee or, in his absence, another member of the Audit Committee or his duly appointed delegate, shall attend the annual general meetings of the Company to be available to answer questions at the annual general meeting.

## **8. Reporting Procedures**

The Audit Committee shall report to the Board on a regular basis. At the next Board meeting following an Audit Committee's meeting, the Audit Committee's chairman shall report the Audit Committee's findings and recommendations to the Board.

## **9. Disagreement as to External Auditors**

Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Audit Committee will arrange for the Corporate Governance Report in the Annual Report to include an explanation of the Audit Committee's view and the reasons why the Board has taken a different view.

Board of Directors of  
CECEP COSTIN New Materials Group Limited

March 2016