



## KINETIC MINES AND ENERGY LIMITED

### 力量礦業能源有限公司

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

**(Stock Code: 1277)**

**(the “Company”)**

## TERMS OF REFERENCE OF AUDIT COMMITTEE

### PURPOSE

1. The purpose of the Audit Committee is to assist the board of directors (the “**Board**”) of Company (together with its subsidiaries, the “**Group**”) in:
  - (a) ensuring that the Company has and maintains an appropriate and effective financial reporting, risk management and internal control systems in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”);
  - (b) evaluating and determining the nature and extent of the risks the Board is willing to take in achieving the Company’s objective;
  - (c) overseeing management in the design implementation and monitoring of the risk management and internal control systems;
  - (d) overseeing the integrity of the financial statements of the Company;
  - (e) selecting and assessing the independence and qualifications of the Company’s external auditor; and
  - (f) ensuring effective communication between the Company’s directors, internal auditors and external auditors.

## **MEMBERSHIP**

2. The Audit Committee shall comprise a minimum of three members consisting of non-executive directors only and a majority of which must be independent non-executive directors of the Company. The Audit Committee shall have at least one independent non-executive director who has the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.
3. The chairman of the Audit Committee (the “**Chairman**”) shall be appointed by the Board and must be an independent non-executive director.

## **MEETINGS**

4. The Audit Committee shall meet at least twice annually or more frequently if circumstances require. The Board, any Audit Committee member and/or the external auditors may request a meeting if they consider that one is necessary.
5. The financial director of the Company, the head of internal auditor and a representative of the external auditors shall normally attend meetings. Other Board members shall also have the right of attendance. However, at least once a year the Audit Committee shall meet with the external and internal auditors without executive directors present.
6. The Chairman (or in his or her absence, a member designated by the Chairman) shall preside at all meetings of the Audit Committee. The Chairman shall be responsible for leading the Audit Committee, including scheduling meetings, preparing agendas and making regular reports to the Board.
7. The company secretary of the Company shall be the secretary (the “**Secretary**”) of the Audit Committee.
8. The quorum for a meeting shall be two members of the Audit Committee, of whom one has to be an independent non-executive director.
9. Proceedings of meetings of the Audit Committee shall be governed by the provisions of the Articles of Association of the Company.
10. Minutes of meetings (both draft and final versions) of the Audit Committee and the records of individual attendance at such meetings shall be prepared by the Secretary which shall be sent to all members of the Audit Committee as soon as practicable after the conclusion of the meeting.

## **AUTHORITY**

11. The Audit Committee is authorised to inspect all accounts, books and records of the Company, and shall have the right to require the management of the Company to furnish all information requested by the Audit Committee as may be required for the purposes of discharging its duties.

12. The Audit Committee is authorised by the Board to investigate any activity within these terms of reference. It is authorised to seek any information it requires from any employee and all employees will be directed to co-operate with any request made by the Audit Committee.
13. The Audit Committee is authorised by the Board to obtain outside independent legal or other professional advice at the expense of the Company and to invite the attendance of outsiders with relevant experience and expertise at meetings of the Audit Committee if it considers this necessary.
14. The Audit Committee shall be provided with sufficient resources to perform its duties.

## **DUTIES**

15. The duties of the Audit Committee shall include the following:

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

- 15.1 to be primarily responsible for making recommendation 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;
- 15.2 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;
- 15.3 to develop and implement policies 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;

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

- 15.4 to monitor the integrity of the Company's financial statements and annual reports and accounts, half yearly reports 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:
  - (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from the audit;
  - (d) the going concern assumptions and any qualifications;

- (e) compliance with accounting standards; and reporting; and
- (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;

15.5 regarding paragraph 15.4 above:

- (a) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's external auditors; and
- (b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and 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 external auditors;

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

- 15.6 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 issuer's risk management and internal control systems;
- 15.7 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;
- 15.8 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;
- 15.9 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 issuer, and to review and monitor its effectiveness;
- 15.10 to review the Group's financial and accounting policies and practices;
- 15.11 to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and management's response;
- 15.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 15.13 to report to the Board on the matters in the Code on Corporate Governance Practices/Corporate Governance Code (Appendix 14 of the Listing Rules), as amended, supplemented or otherwise modified from time to time;

- 15.14 to establish 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 to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- 15.15 to act as the key representative body for overseeing the Company's relationship with the external auditor;
- 15.16 to establish a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company;
- 15.17 to review ongoing connected transactions of the Company and ensure compliance with terms of approval by shareholders of the Company;
- 15.18 to review from time to time as appropriate these Terms of Reference and the effectiveness of the Committee and recommend to the Board any necessary changes;
- 15.19 to report to the Board on the matters set out in these Terms of Reference and where the monitoring activities of the Audit Committee reveal cause for concern or scope for improvement, the Audit Committee shall make recommendations to the Board to address the issue or to make improvements; and
- 15.20 to consider such other matters as the Board may from time to time determine.

## **REPORTING PROCEDURES**

- 16. The Audit Committee shall report to the Board on a regular basis. At least annually, the Audit Committee shall present a report to the Board which addresses the work and findings of the Audit Committee during the year.