

(Effective on 1 January 2016)

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**CHINA EVERBRIGHT INTERNATIONAL LIMITED**

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

## **China Everbright International Limited**

### **Terms of Reference of the Audit Committee**

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#### ***Formation***

1. The Audit Committee (the “Committee”) was formed pursuant to the board resolution of China Everbright International Limited (the “Company”) passed on 12 March 1999.

#### ***Membership***

2. The Committee shall be appointed by the board of directors of the Company (the “Board”) from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of whom should be independent non-executive directors and at least one of whom must have the 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. A quorum shall be two members.
3. The Chairman of the Committee shall be appointed by the Board and shall be an independent non-executive director.

#### ***Attendance at meetings***

4. Attendees shall normally include Committee’s members, the Chief Financial Officer, the Head of Internal Audit, a representative of the external auditors and those with meaningful input to the Committee’s activities. However, at least once a year the Committee shall meet with the external and internal auditors without executive Board members and management of the Company present.
5. The company secretary shall be the secretary of the Committee.

#### ***Frequency of meetings***

6. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

#### ***Authority***

7. 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 and all employees are directed to co-operate with any request made by the Committee.

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8. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

***Responsibility***

9. The Committee is to serve as a focal point for communication between other directors, the external auditor and the internal auditor of the Company as regards their duties relating to financial and other reporting, risk management and internal control systems, external and internal audits and such other financial and accounting matters as the Board determines from time to time.
10. The Committee is to assist the Board in providing an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Company and its subsidiaries (the “Group”), overseeing the audit process, reviewing the completeness, accuracy, clarity and fairness of the Company’s financial statements, considering the scope, approach and nature of both internal and external audit reviews and reviewing and monitoring connected transactions and performing other duties and responsibilities as may be assigned by the Board from time to time.

***Duties***

11. The duties of the Committee shall be :
- (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;
  - (b) to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
  - (c) 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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

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- (d) 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 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;
- (e) Regarding (d) above :-
  - (i) members of the Committee should liaise with the 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, 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;
- (f) to review the Company's financial controls, and unless expressly addressed by a separate Board risk management committee or by the board itself, risk management and internal control systems;
- (g) to discuss the risk management and internal control systems 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;
- (h) 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;

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- (i) to discuss problems and reservations arising from the interim review and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
- (j) 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;
- (k) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (l) 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;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to report to the Board on the matters in these terms of reference of the Committee;
- (o) to review the Group's financial and accounting policies and practices; and
- (p) to review arrangements that 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;
- (q) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (r) review annually the external auditor's fees which have been negotiated with management of the Company;
- (s) when the external auditor renders a substantial volume of non-audit services to the Group, to keep the nature and extent of such services under review, and ensure that the provision by the external auditor of non-audit services does not impair the external auditor's independence or objectivity; and
- (t) to consider other topics, as defined by the Board.

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***Reporting procedures***

12. The secretary shall circulate the minutes of meetings and reports of the Committee to all members of the Board.

***Others***

13. The chairman of the Committee or in his absence, another member of the Committee or failing this, his duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to questions at the annual general meeting on the Committee's activities and their responsibilities.