

CHINA RESOURCES GAS GROUP LIMITED

**TERMS OF REFERENCE
OF THE AUDIT COMMITTEE**

(adopted on 15th March, 2004)
(amended on 5th March, 2005)
(amended on 1st December, 2008)
(amended on 16th March, 2009)
(amended on 13th March, 2012)

CHINA RESOURCES GAS GROUP LIMITED
Terms of Reference of the Audit Committee

1. Scope and Objective

The Audit Committee (the “Committee”) is a formally constituted committee of the Board and its function is to assist the Board in providing an independent and objective review of the effectiveness of the financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. It primarily aims to increase Board effectiveness, accountability, transparency and objectivity.

The main objectives of the Committee are as follows:

- (a) to improve the quality of financial reporting by reviewing the Group’s statutory financial statements;
- (b) to keep the Board informed of existing accounting policies and practices, auditing and internal control systems so as to assist the Board to make quality decisions;
- (c) to enhance self-discipline and corporate governance and safeguard the interests of the Group and its shareholders;
- (d) to review the effectiveness of the system of internal control of the Group; and
- (e) to increase public confidence in the credibility and objectivity of statutory financial statements and of the Board.

2. Composition

- (a) All Committee members shall be appointed by the Board. The Chairman should be an Independent Non-executive Director.
- (b) The Committee shall consist of not less than 3 members and the majority of whom should be Independent Non-executive Directors.

3. Meetings

- (a) A quorum shall be two members. The Chief Financial Officer, Internal Audit Manager and a representative of the external auditor shall normally attend such meetings. However, at least once a year the Committee shall meet with the external auditor and Internal Audit Manager without executive Board members’ presence.
- (b) Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

4. Authority

- (a) The Committee is authorized by the Board to investigate or to carry out 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 requirement made by the Committee.
- (b) The Committee is authorized by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

5. Duties

The duties of the Committee shall be:

I. Relationship with the Group's auditors

- (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 act as the key representative body for overseeing the relation with the external auditor; and 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 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;

II. Review of the Group's financial information

- (d) to monitor integrity of the Group'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 the 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) In regard to (d) above:
 - (i) members of the Committee should liaise with the Board, senior management and Chief Financial Officer and the Committee must meet, at least twice a year, with the Group'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 Chief Financial Officer, compliance officer or auditors;

III. Oversight of the Group's financial reporting system and internal control procedures

- (f) to review financial controls, internal controls and risk management systems of the Group;

- (g) 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 experience, training programmes and budget of the Company's accounting and financial reporting function;
- (h) 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;
- (i) to review the internal audit programme, 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 Group, and to review and monitor its effectiveness;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to discuss problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary);
- (l) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of controls and management's response;
- (m) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) 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 these matters and for appropriate follow up action;
- (p) to report to the Board on the matters in the provisions of this terms of reference; and
- (q) to consider other topics, as defined by the Boards.

6. Reporting Procedures

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