



**Sino Prosper State Gold Resources Holdings Limited**  
**(“Company”)**

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**Terms of reference of the Audit Committee (“Committee”)**  
**of the Board of Directors (“Board”) of the Company**

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**1. Constitution**

The Committee is established pursuant to a resolution passed by the Board at its meeting held on 25 April 2002.

**2. Membership**

2.1 Members of the 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, a majority of whom shall be independent non-executive directors. At least one of the members shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required in Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Committee for a period of at least one (1) year from the date of his ceasing:

- (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm,
- whichever is later.

2.2 The Chairman of the Committee shall be appointed by the Board and shall be an independent non-executive director.

2.3 The secretary of the Committee shall be appointed by the Board. In the absence of the secretary of the Committee, Committee members present at the meeting may elect among themselves or appoint another person as the secretary for that meeting.

2.4 The appointment of the members of the Committee may be revoked, or additional members may be appointed to the Committee by separate resolutions passed by the Board and by the Committee. An appointment of Committee member shall be automatically revoked if such member ceases to be a member of the Board.

### 3. Proceedings of the Committee

#### 3.1 *Notice:*

- (a) Unless otherwise agreed by all the Committee members, a meeting shall be called by at least seven days' notice. Irrespective of the length of notice being given, attendance of a Committee member at a meeting constitutes a waiver of such notice unless the Committee member attending the meeting attends for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the grounds that the meeting has not been properly convened.

(Note: Pursuant to paragraph A.1.3 of Appendix 14 of Listing Rules, regular board meetings should be called by, so far as practicable, at least 14 days' notice.)

- (b) A Committee member may and, on the request of a Committee member, the secretary to the Committee shall, at any time summon a Committee meeting. Notice shall be given to each Committee member in person orally or in writing or by telephone or by facsimile transmission at the telephone or facsimile or address from time to time notified to the secretary by such Committee member or in such other manner as the Committee members may from time to time determine.
- (c) Any notice given orally shall be confirmed in writing and before the meeting.
- (d) Notice of meeting shall state the time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the members of the Committee for the purposes of the meeting.

3.2 ***Quorum:*** The quorum of the Committee meeting shall be two members of the Committee.

3.3 ***Attendance:*** The Company's qualified accountant, the financial controller, the Head of Internal Audit (or any officer(s) assuming the relevant functions but having a different designation), if any, 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 Committee shall meet with the external auditors and internal auditors, if any, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.. [CP C.3.3(n), note 1(iii)]

3.4 ***Frequency:*** Meetings shall be held not less than twice a year to consider the budget, revised budget and interim or annual report prepared by the Board. The external auditors may request the Chairman of the Committee to convene a meeting, if they consider that one is necessary.

3.5 ***Participation by means of tele-communication facilities:*** Members may participate in meeting of the Committee by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.

#### **4. Written resolutions**

Written resolutions may be passed by all Committee members in writing.

#### **5. Alternate Committee members**

A Committee member may not appoint any alternate.

#### **6. Authority of the Committee**

6.1 The Committee may exercise the following powers:

- (a) to seek any information it requires from any employee of the Company and its subsidiaries (together, the “**Group**”) and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend Committee meetings and to supply information and address the questions raised by the Committee;
- (b) to monitor whether the Group’s management has, in the performance of their duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Listing Rules, the Listing Agreement (if any) and other rules and regulations from time to time determined by the Board or a committee thereof);
- (c) to investigate all suspected fraudulent acts involving the Group and request the management to make investigation and submit reports;
- (d) to review the Group’s internal control procedures and system;
- (e) to review the performance of the Group’s employees in the accounting and internal audit department, if any;
- (f) to make recommendations to the Board for the improvement of the Group’s internal control procedures and system;
- (g) to request the Board to convene a shareholders’ meeting for purposes of revoking the appointment of any director and to dismiss any employees if there is evidence showing that the relevant director and/or employee has failed to discharge his duties properly;
- (h) to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the auditors of the Group;
- (i) to commission reports or surveys as are necessary to assist in the performance of its duties at the cost of the Company;
- (j) to review annually these terms of reference and their effectiveness in the discharge of its duties and to make recommendation to the Board any changes it considers necessary; and

- (k) to obtain outside legal or other independent professional advice, at the expenses of the Company, on any matters within these terms of reference as it considers necessary, and to secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary. [CP A.1.6]

6.2 The Committee should be provided with sufficient resources to perform its duties. [CP C.3.6]

## 7. Duties [CP C.3.3]

The duties of the Committee shall be:

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

- (a) 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;
- (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 audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations and ensure coordination where more than one audit firm is engaged 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 reasonable conclude to be part of the audit firm nationally or internationally, and to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

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

- (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, focusing 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;
- (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (vii) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group and whether such connected transactions, if any, have been carried out in accordance with the terms of the agreement governing such transactions;
- (viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosures give a fair view of the Group's financial conditions; and
- (ix) the cashflow position of the Group;

and to provide advice and comments thereon to the Board;

(e) regarding (d) above:

- (i) members of the Committee should liaise with the Board, senior management and the person appointed as the Company's qualified accountant 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 qualified accountant, compliance officer or auditors;
- (f) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);

***Oversight of the Company's financial reporting system and internal control procedures***

- (g) to review the Company's financial controls, internal control and risk management systems;
- (h) 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;
- (i) 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;

- (j) 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;
- (k) to review the Group's financial and accounting policies and practices;
- (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 control and management's response;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to conduct exit interviews with any director, manager, financial controller or internal credit control manager upon their resignation in order to ascertain the reasons for his departure;
- (o) to prepare work reports for presentation to the Board and to prepare summary of work reports for inclusion in the Group's interim and annual reports;
- (p) to consider the appointment of any person to be a Committee member and auditors either to fill a casual vacancy or as an additional Committee member and auditors or dismissal of any of them;
- (q) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; [CP C.3.7(a)]
- (r) to act as the key representative body for overseeing the Company's relations with the external auditor; [CP C.3.7(b)]
- (s) to report to the Board on all the matters set out in this paragraph; and
- (t) to consider other matters as defined by the Board.

## **8. Veto rights of the Committee**

The Committee has the following veto rights. The Company cannot implement any of the following matters which has been vetoed by the Committee:

- (a) to approve any connected transaction within the meaning of the Listing Rules which requires an independent shareholders' vote (unless the approval of such connected transaction is made conditional on the obtaining of the approval of the independent non-executive directors and the independent shareholders); and

- (b) to employ or dismiss the Company's financial controller or the internal audit manager.

## **9. Reporting procedures**

- 9.1 Full minutes of the meetings of the Committee should be kept by the secretary of the Committee. The secretary of a Committee meeting shall prepare the initial draft minutes of that meeting. Draft and final versions of minutes of the meeting of the Committee or, as the case may be, written resolutions should be sent by the secretary of the Committee to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting (generally, meaning within 14 days after the meeting). Once the minutes are signed, the secretary shall circulate the minutes and reports of the Committee to all members of the Board and the company secretary. [CP C.3.1]
- 9.2 The Committee shall report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements). [CP D.2.2]
- 9.3 The secretary of the Committee shall keep record of all meetings of the Committee held during each financial year of the Company and records of individual attendance of members of the Committee, on a named basis, at meetings held during that financial year.

## **10. Annual general meeting [CP E.1.2]**

- 10.1 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 answer questions at the annual general meeting on the Committee's activities and their responsibilities.
- 10.2 The Company's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

## **11. Continuing application of the articles of association of the Company**

The articles of association of the Company regulating the meetings and proceedings of the Directors so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Committee.

## **12. Powers of the Board**

The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including the Code of Best Practice or, as the case may be, Code of Corporate Governance Practices), amend, supplement and revoke these terms of reference and any resolution passed by the Committee provided that no amendments to and revocation of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid if such terms of reference or resolution had not been amended or revoked.

## **13. Publication of the terms of reference of the Committee [CP C.3.4]**

The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the website of the Company and on the website of the Stock Exchange.

26 March, 2012