

FUSHAN INTERNATIONAL ENERGY GROUP LIMITED

AUDIT COMMITTEE

TERMS OF REFERENCE *(As adopted on 11 December 2009)*

Constitution

The audit committee (“Committee”) is a committee of the board of directors (“Board”).

Membership

The Committee members 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 should be independent.

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

Secretary of Committee

The company secretary shall be the secretary of the Committee.

Attendance at meetings

A quorum shall be two members.

The Finance Director (if any), the Head of Internal Audit (if any), the Head of Accounts/Finance Department and a representative of the external auditors shall normally attend meetings. Other directors shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditors without executive directors present.

Frequency of meetings

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

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.

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.

Duties

The duties of the Committee shall be :

- (a) to make 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 resignation or dismissal of that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; and to discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and ensure co-ordination where more than one audit firm is involved;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services and to report to the Board, identifying any matters that action or improvement is needed and making recommendations as to the steps to be taken. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally;
- (d) to monitor integrity of financial statements and the annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them;
- (e) to review the annual report and accounts, half-year report and if prepared for publication, quarterly 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 assumption and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (f) In regard to (d) and (e) above:-
 - (i) to liaise with the Board and senior management and to meet, at least once a year, with the auditors; and

- (ii) to consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (g) to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
- (h) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (i) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (j) to review the company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (k) to review the company's financial controls, internal control and risk management systems;
- (l) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the company's accounting and financial reporting function, and their training programmes and budget;
- (m) (where an internal audit function exists) to review and monitor the effectiveness of the internal audit function, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the company;
- (n) to consider the major findings of internal investigations and management's response;
- (o) to review the group's financial and accounting policies and practices;
- (p) to report to the Board on the matters set out in code provision C.3 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (as amended from time to time); and
- (q) to consider other topics, as defined by the Board.

Reporting procedures

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