

**Terms of Reference of the Audit and Risk Management Committee of  
TL NATURAL GAS HOLDINGS LIMITED  
(the “Company”)  
(Stock Code: 8536)**

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**DEFINITIONS**

1. For the purposes of these terms of reference (the “**Terms**”):

<b>“Audit and Risk Management Committee”</b>	means the audit and risk management committee from time to time established by resolution of the Board in accordance with Article 137 of the articles of association of the Company and clause 2 of these Terms
<b>“Board”</b>	means the board of Directors of the Company
<b>“Company Secretary”</b>	means the company secretary of the Company from time to time
<b>“Corporate Governance Code”</b>	means the Corporate Governance Code in Appendix 15 to the GEM Listing Rules (as amended from time to time)
<b>“Director(s)”</b>	means the director(s) of the Company
<b>“Financial Controller”</b>	means the senior officer of the Company responsible for financial management of the Company as appointed by the Board from time to time
<b>“GEM Listing Rules”</b>	means the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (as amended from time to time)
<b>“Group”</b>	means the Company and its subsidiaries from time to time
<b>“Senior Management”</b>	means the same person as referred to in the Company’s annual report and is required to be disclosed under paragraph 41 of Appendix 1 to the GEM Listing Rules, as such rule may be amended from time to time
<b>“Shareholder(s)”</b>	means the shareholder(s) of the Company from time to time
<b>“Stock Exchange”</b>	means The Stock Exchange of Hong Kong Limited

## **CONSTITUTION**

2. The Board hereby resolves to establish a committee of the Board to be known as the Audit and Risk Management Committee to assist the Board to establish formal and transparent arrangements for considering how the Board will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the Company's auditors.

## **SECRETARY OF THE AUDIT AND RISK MANAGEMENT COMMITTEE**

3. Any one of the company secretaries of the Company shall be the secretary of the Audit and Risk Management Committee.
4. The Audit and Risk Management Committee may appoint from time to time a secretary with other appropriate qualifications and experiences.

## **MEMBERSHIP**

5. The Audit and Risk Management Committee shall comprise a minimum of three members which should be non-executive Directors. The majority of the Audit and Risk Management Committee must be independent non-executive Directors who should meet the independence requirements set out in Rule 5.09 of the GEM Listing Rules. In addition, at least one of the independent non-executive Directors of the Audit and Risk Management Committee members shall possess appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules.
6. The chairman of the Audit and Risk Management Committee shall be appointed by the Board and shall be an independent non-executive Director.
7. Each member of the Audit and Risk Management Committee shall disclose to the Audit and Risk Management Committee the following:
  - (a) any and all personal financial interests (other than as Shareholder of the Company) in any Company matter related to any matter under consideration by the Audit and Risk Management Committee; and
  - (b) any potential conflict of interest arising from a cross-directorship or otherwise,and the secretary of the Audit and Risk Management Committee meeting shall also ascertain, at the beginning of the meeting, the existence of any conflict of interest and minute them accordingly.
8. Any member with any personal financial interest in any Company matter related to any matter under consideration by the Audit and Risk Management Committee or any potential conflict of interest howsoever arising, shall abstain from voting on resolutions of the Audit and Risk Management Committee in relation to which such interest or conflict of interest exists and from participating in the discussions concerning such resolutions and (if so required by the Board) shall resign from the Audit and Risk Management Committee.
9. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Audit and Risk Management Committee for a period of two years commencing on 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 the later.

## **MEETINGS**

- 10. Unless otherwise specified hereunder, the provisions contained in the Company's articles of association (as amended from time to time) for regulating proceedings of Directors' meetings shall apply to the meetings of the Audit and Risk Management Committee.
- 11. Meetings of the Audit and Risk Management Committee shall be held at least twice annually. The Board, any Audit and Risk Management Committee member and the external auditors may request a meeting if they consider it necessary.
- 12. The chairman of the Audit and Risk Management Committee shall convene a meeting upon written request of any member of the Audit and Risk Management Committee.
- 13. A quorum of the Audit and Risk Management Committee shall be two members. A duly convened meeting of the Audit and Risk Management Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit and Risk Management Committee.
- 14. Unless otherwise agreed by all the members of the Audit and Risk Management Committee, notice of at least 14 days shall be given for any meeting of the Audit and Risk Management Committee. For regular meetings, and as far as practicable in all other cases, an agenda and accompanying supporting papers shall be sent, in full, to all members of the Audit and Risk Management Committee and to other attendees as appropriate at least three days before the date of the meeting (or such other period as the members may agree).
- 15. Members of the Audit and Risk Management Committee may participate in any meeting of the Audit and Risk Management Committee by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.
- 16. The Financial Controller and the head of internal audit of the Company (if any) shall attend Audit and Risk Management Committee meetings.
- 17. The Audit and Risk Management Committee shall invite the external auditors to attend meetings as it considers necessary.
- 18. The Audit and Risk Management Committee shall meet with the external auditors (if any) annually without the executive Directors present.
- 19. The Company Secretary shall be the secretary of the Audit and Risk Management Committee. The Company Secretary or, in his/her absence, his/her delegate(s) or any person elected by the members present at the meeting of the Audit and Risk Management Committee, shall attend the meeting of the Audit and Risk Management Committee and take minutes.
- 20. Any resolution shall be passed by the majority votes of the members of the Audit and Risk

Management Committee who attend the meeting and a majority vote of the members present shall represent an act of the Audit and Risk Management Committee.

#### **WRITTEN RESOLUTIONS**

21. Without prejudice to any requirement under the GEM Listing Rules, written resolution may be passed and adopted by all members of the Audit and Risk Management Committee.

#### **ANNUAL GENERAL MEETINGS**

22. The chairman of the Audit and Risk Management Committee shall attend the annual general meeting of the Company and be prepared to respond to any questions posed therein on the activities or decisions of the Audit and Risk Management Committee. In his absence, one other member of the Audit and Risk Management Committee duly appointed should attend.

#### **AUTHORITY**

23. The Audit and Risk Management Committee is authorised by the Board to discharge its duties within these Terms.
24. The Audit and Risk Management Committee is authorised by the Board to seek any information it requires from the Directors, Senior Management and any employees. Each of the Directors, Senior Management and employees must cooperate with the Audit and Risk Management Committee.
25. The Audit and Risk Management Committee is authorised by the Board to obtain, at the expense of the Company, external legal and other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if and when it considers necessary.
26. The Audit and Risk Management Committee shall be provided with sufficient resources to perform its duties.
27. The Audit and Risk Management Committee is authorised by the Board to have responsibility for establishing the selection criteria, selection, appointment and setting of the terms of reference for any external remuneration consultant retained to advise the Audit and Risk Management Committee.

#### **DUTIES**

28. The responsibilities and authorities of the Audit and Risk Management Committee shall include such responsibilities and authorities set out in the relevant code provisions of the Corporate Governance Code, which shall include:

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

- (a) acting as the key representative body for overseeing the Company's relations with the external auditors;
- (b) making recommendations to the Board on the appointment, reappointment and removal of the external auditors;
- (c) approving the remuneration and terms of engagement of the external auditors;

- (d) considering any questions relating to the resignation or dismissal of the external auditors;
- (e) reviewing with the Group's management, external auditors and internal auditors, where an internal audit function exists in the Company, the adequacy of the Group's policies and system regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the directors of the Company to be included in the annual accounts prior to endorsement by the Board;
- (f) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards before audit commencement;
- (g) discussing with the external auditors the nature and scope of the audit and reporting obligations before the audit commences, and ensuring coordination where more than one audit firm is involved;
- (h) developing and implementing policies on engaging an external auditors to supply non-audit services and reports to the Board. For this purpose, "external auditors" 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;
- (i) reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (j) seeking from the external auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;
- (k) evaluating the cooperation received by the external auditors, including their access to all requested records, data and information; obtain the comments of management of the Company regarding the responsiveness of the external auditors to the Group's needs; inquire of the external auditors as to whether there have been any disagreements with management of the Company which if not satisfactorily resolved would result in the issue of a qualified report on the Group's financial statements;

***Review of financial information of the Company***

- (l) monitoring the integrity of the Company's financial statements, annual report and accounts, half-year report and quarterly reports, and reviewing significant financial reporting judgements contained in them;
- (m) in reviewing the Company's financial statements, annual report and accounts, half-year report and quarterly reports, the Audit and Risk Management 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 GEM Listing Rules and other legal requirements in relation to financial reporting;
- (n) Regarding Article 28(m) above:
- (i) members of the Audit and Risk Management Committee should liaise with the Board, Senior Management and the Company's auditors;
  - (ii) the Audit and Risk Management Committee must meet with the Company's auditors at least twice a year
  - (iii) the Audit and Risk Management Committee should consider any significant or unusual items that are, or may need to be, reflected in the financial statements, reports and accounts giving due consideration to any matters raised by the Company's staff responsible for the accounting and financial reporting function, qualified accountant, compliance officer or auditors; and
  - (iv) discussing problems and reservations arising from the quarterly, interim and final audits, and any matters the external auditors may wish to discuss (in the absence of Senior Management where necessary) with the external auditors;

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

- (o) acting as the key representative body for overseeing the Company's financial controls, risk management and internal control systems on an ongoing basis;
- (p) reviewing, at least annually, the effectiveness of the Group's risk management and internal control systems. The review should cover all material controls, including financial, operational and compliance controls, and consider the following:
  - (i) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
  - (ii) the scope and quality of the management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
  - (iii) the extent and frequency of communication of monitoring results to the Board (or board committee(s) of the Company) which enables it to assess control of the Company and the effectiveness of risk management;
  - (iv) significant control failings or weakness that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes and contingencies that have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition; and
  - (v) the effectiveness of the Company's processes for financial reporting and GEM Listing Rules compliance, including without limited to handling and dissemination of inside information;
- (q) discussing 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;

- (r) considering 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;
- (s) where an internal function exists, ensuring co-ordination between the internal and external auditors;
- (t) ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (u) reviewing the Group's financial and accounting policies and practises;
- (v) reviewing the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- (w) ensuring that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (x) to report to the Board on the matters in the code provision C.3.3 of the Corporate Governance Code;
- (y) reviewing arrangements employees of the Company and those who deal with the Company (e.g. customers and suppliers) may, in confidence, 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 appropriate follow-up action;
- (z) establishing 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 and Risk Management Committee about possible improprieties in any matter related to the Company;
- (aa) reporting to the Board on the matters set out in these Terms; and
- (bb) considering other topics and matters, as defined by the Board.

## **CORPORATE GOVERNANCE FUNCTIONS**

29. The Audit and Risk Management Committee shall be responsible for the following corporate governance functions:

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (c) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

- (d) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

## **REPORTING**

30. The secretary of an Audit and Risk Management Committee meeting shall record in sufficient detail the matters considered by the Audit and Risk Management Committee and decisions reached, including the names of those present and in attendance and any concerns raised by any member of the Audit and Risk Management Committee and/or dissenting views expressed.
31. Draft and final versions of minutes of Audit and Risk Management Committee meetings shall be sent to all Audit and Risk Management Committee members for their comment and records within a reasonable time after the meeting.
32. Minutes of the Audit and Risk Management Committee meetings shall be kept by the Company Secretary and shall be available for inspection by any member of the Audit and Risk Management Committee or the Board at any reasonable time on reasonable notice.
33. The Audit and Risk Management 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).
34. The Audit and Risk Management Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or risk management system, or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
35. The Audit and Risk Management Committee shall make a statement in the Annual Report of the Company about its activities.
36. Where the Board disagrees with the Audit and Risk Management Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Audit and Risk Management Committee will arrange for the Corporate Governance Report in the Annual Report to include an explanation of the Audit and Risk Management Committee's view and the reasons why the Board has taken a different view.
37. The Audit and Risk Management Committee shall make these Terms available on the Company's and the Stock Exchange's websites.

## **MISCELLANEOUS**

38. The adoption of, and amendments to, these Terms require the approval of the Board to be effective.
39. The interpretation of these Terms shall be vested in the Board.

***Note: If there is any inconsistency between the English and Chinese versions of these Terms, the English version shall prevail.***

*(Adopted and amended by the Company pursuant to the Board's resolutions passed on 20 April 2018 and 31 December 2018)*