

*The English version of these Terms of Reference is for reference only. In case of any inconsistency with the Chinese version, the Chinese version shall prevail.*



**洛陽欒川鉬業集團股份有限公司**

**China Molybdenum Co., Ltd. \***

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 03993 HK 603993 SH)

**Terms of Reference and Operation Rules of  
the Audit Committee**

**CONTENTS**

Chapter 1	General Provisions
Chapter 2	Composition
Chapter 3	Terms of Reference
Chapter 4	Convening and Notices of Meetings
Chapter 5	Consideration and Voting Procedures
Chapter 6	Resolutions and Minutes of Meetings
Chapter 7	Supplementary Provisions

## Chapter 1 General Provisions

**Article 1** In order to strengthen the decision making function of the board of directors (the “**Board**”) of China Molybdenum Co., Ltd. (the “**Company**”), ensure pre-audit and professional audit, make sure that the Board gives effective supervision to the management and improve the corporate governance structure, the Board has resolved to set up the Audit Committee under the Board (the “**Audit Committee**”).

**Article 2** In a bid to promote standardized and efficient operation, the Board has formulated this terms of reference (the “**Terms of Reference**”) in accordance with the Company Law of the People’s Republic of China (the “**Company Law**”) and other relevant laws, regulations and regulatory documents, and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as well as the Articles of Association of China Molybdenum Co., Ltd. (the “**Articles of Association**”).

**Article 3** The Audit Committee is a special body set up by the Board according to the resolution of the shareholders’ general meeting, mainly responsible for the communication between the internal and external auditors as well as supervision and review of their work.

**Article 4** The Audit Committee shall make resolutions in compliance with the Articles of Association, the Listing Rules, the Terms of Reference and the requirements of other relevant laws and regulations.

## Chapter 2 Composition

**Article 5** The Audit Committee shall consist of at least 3 non-executive Directors, more than half of whom shall be independent non-executive Directors. One of the members in the capacity of independent non-executive Directors must be equipped with professional qualifications or appropriate or relevant accounting or financial management expertise.

- Article 6** If the former partner of the Company's existing audit firm is a non-executive Director of the Company, he should be prohibited from acting as a member of the Audit Committee for a period of 1 year commencing on the date of his ceasing: (a) to be a partner of that firm; or (b) to have any financial interest in that firm, whichever is the later.
- Article 7** The Audit Committee shall have one chairman. The chairman shall be appointed by the Board from amongst the committee members and shall be an independent non-executive Director.
- Article 8** The meeting of the Audit Committee shall be convened and chaired by its chairman, who, in case of failure or inability to perform his duties, shall designate another committee member to act on his behalf.
- Article 9** The secretary of the Audit Committee shall be a suitable person appointed by the Audit Committee while the Audit Committee may also appoint from time to time any other individual with proper qualifications and experience as its secretary.
- Article 10** The term of office of the Audit Committee members is the same as that of Directors of the Board of the same session. If any member of the Audit Committee ceases to hold the position of Director of the Company during his term of office, his membership shall automatically terminate.
- Article 11** If the number of the Audit Committee members falls to less than three as a result of resignation or removal of members or for other reasons, the Board shall elect new members as soon as possible.
- The Audit Committee shall suspend exercise of its duties and functions stated herein until it has three members as required.
- Article 12** The requirements of the Company Law, the Articles of Association and the Listing Rules on obligations of Directors are applicable to the members of the Audit Committee.

## Chapter 3 Terms of Reference

### Article 13

It is the responsibility of the Audit Committee to assist the Board in performing its audit duties by reviewing and monitoring the Company's financial reporting and internal control system. The Audit Committee has the following responsibilities, powers and discretions:

#### (I) Relationship with the Company's external auditor

1. to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor, and handling any matters on resignation or dismissal of that auditor;
2. to review and monitor the external auditor's independence and objectivity;
3. to review and monitor the effectiveness of the audit process in accordance with applicable standard and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
4. to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditors 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;
5. to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(II) Review of financial information of the Company

1. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and quarterly reports before submission to the Board, the Audit Committee should focus particularly on:

- (1) any changes in accounting policies and practices;
- (2) major judgmental areas;
- (3) significant adjustments resulting from audit;
- (4) the going concern assumptions and any qualifications;
- (5) compliance with accounting standards; and
- (6) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting.

(III) In regard to the above provision, the Audit Committee shall go through the following procedure:

1. Members of the Audit Committee must liaise with the Company's Board, senior management and the persons appointed as the Company's external auditors; the Audit Committee shall hold meeting with the external auditor at least twice a year.
2. The Audit Committee should 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 Supervisory Committee or compliance officer or external auditor of Company.

(IV) Oversight of the Company's financial reporting system and internal control procedures

1. to review the Company's financial controls, internal control and risk management systems;
2. 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;
3. to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
4. to ensure co-ordination between the internal and the 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 the effectiveness of the internal audit function;
5. to review the Company's financial and accounting policies and practices;
6. to review the drafts of annual reports;
7. to review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.
8. to review the external auditor's management letter, any material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response;
9. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

10. to review arrangements in which the employees of the Company are able to raise concerns in confidence over possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure proper arrangements are in place in the Company for fair and independent investigation of these matters and take suitable follow-up actions;
11. to monitor the liaison between the Company and the external auditor in the capacity of key representative body;
12. to report to the Board on all the above matters; and
13. to consider and deal with any other matters as delegated by the Board.

(V) Corporate Governance

- 1 to formulate and review the Company's corporate governance policies and practices and make recommendations to the Board;
- 2 to review and monitor the training and continuous professional development of directors and senior management;
- 3 to review and supervise the Company's compliance of policies and practices provided by laws and regulatory requirements;
- 4 to formulate, review and supervise the rules of conduct and compliance manual, if any, for employees and directors; and
- 5 review the Company's compliance of the CG Code (Appendix 14 of the Listing Rules) and its disclosures made in the Corporate Governance Report.

- Article 14** After considering the matters set out in the previous article hereof, the Audit Committee shall form meeting resolutions and report, along with relevant proposals, to the Board.
- Article 15** The Audit Committee shall meet with internal auditors at least once semi-annually to discuss the internal audit, and the internal auditors shall point out the significant matters and results which they consider should be informed to or brought to the attention of the Audit Committee. To prepare for such internal discussion, internal auditors shall provide a report or a summary report on internal control of the Company and its subsidiaries for each member through the secretary of the Audit Committee. A report on activities of the Audit Committee in each financial year will also be submitted to the Board.
- Article 16** The chairman or (in his absence) another member of the Audit Committee (who must be an independent non-executive Director) shall attend the Company's annual general meeting and respond to the queries from shareholders in respect of the activities and responsibilities of the Audit Committee.
- Article 17** The Audit Committee has the right to inspect all the Company's accounts, books and records.
- Article 18** The Audit Committee may request the management of the Company to provide any information on the financial conditions of the Company, its subsidiaries or affiliates which is necessary for the performance of its functions.
- Article 19** The Audit Committee may approach without restriction executive Directors, other administrators or employees, external and internal auditors. The external and internal auditors have the right to consult the Audit Committee without notifying the management. The Audit Committee has the right to consult the external and internal auditors without notifying the management, or to consult the management without notifying the external and internal auditors.



**Article 20** Directors concurrently being members of the Audit Committee may, with the consent of the Board, seek independent professional advice through the Company's financial controller or the secretary of the Audit Committee to carry out their responsibilities as members of the Audit Committee, and necessary expenses incurred therefrom shall be borne by the Company.

**Article 21** The Audit Committee shall exercise its powers and duties in compliance with the Company Law, the Articles of Association, the Listing Rules and relevant requirements hereof without detriment to the interests of the Company and the shareholders.

#### **Chapter 4 Convening and Notices of Meetings**

**Article 22** The Audit Committee shall hold at least two, or if it needs to review quarterly reports, four meetings a year.

The Company's external auditor may, if considered necessary, propose a meeting of the Audit Committee.

**Article 23** Meetings of the Audit Committee may be held on site or by way of teleconference or video conference. The members of the Audit Committee may attend the meeting via telephone or similar communication apparatus (through which all members present are able to hear the others).

**Article 24** Notices of the Audit Committee meetings shall be given 14 days in advance and meeting materials shall be despatched to all members 3 days before the meeting, unless the notification deadline is exempted by all the members unanimously. Notwithstanding the aforesaid, members attending the meeting shall be deemed to exempt the above notification deadline.

**Article 25** A notice of the Audit Committee meeting shall be delivered by the secretary of the Audit Committee or the office of the Board subject to the deadline stated in the previous article.

**Article 26**

A notice of the Audit Committee meeting shall include at least the following information:

1. the time and venue of the meeting;
2. the duration of the meeting;
3. topics to be discussed at the meeting;
4. the contact person and contact details;
5. the date of the meeting notice.

**Article 27**

A notice of the Audit Committee meeting shall be accompanied by the meeting agenda and proposals.

**Article 28**

The Audit Committee shall meet with the representative of the Company's external auditor at least once a year without the management present (other than those invited by the Audit Committee).

**Article 29**

The following persons may attend meetings as non-voting observers at the invitation of the Audit Committee:

1. the head or (in his absence) the representative of the internal audit;
2. the chief financial officer of the Company;
3. other members of the Board;
4. other members of the management.

## Chapter 5 Consideration and Voting Procedures

### Article 30

The Audit Committee meeting may not be held unless more than two members are present and one of them must be an independent non-executive Director.

The Directors who are not members of the Audit Committee may attend the Audit Committee meeting, but they do not have voting rights on proposals tabled at the meeting.

### Article 31

A member of the Audit Committee may attend the meeting in person or appoint another member to attend and exercise the voting rights at the meeting on his behalf.

A member may appoint only one other member to exercise the voting rights on his behalf, and an appointment involving two or more members is invalid.

### Article 32

A member of the Audit Committee who appoints another member to attend and vote at the meeting on his behalf shall submit a power of attorney to the chairman of the meeting. The power of attorney shall be presented to the chairman of the meeting before a vote is taken at the meeting.

### Article 33

The power of attorney shall include at least the following information:

- 1 the name of the appointer;
- 2 the name of the proxy;
- 3 matters entrusted;
- 4 instructions as to how to exercise the voting rights on topics of the meeting (for, against, abstain) and, in the absence of specific instructions, descriptions on if the proxy may vote at his discretion;
- 5 validity of the authorisation;

6 the date of signature of the power of attorney.

The power of attorney shall be signed by the appointer and the proxy.

**Article 34**

A member of the Audit Committee who does not attend a meeting in person or appoint another member to attend on his behalf shall be considered to be absent from such meeting.

Should a member fail to attend the meetings of the Audit Committee twice in a row, he shall be deemed to be unable to carry out his duties and the Board may revoke his membership.

**Article 35**

Resolutions made by the Audit Committee shall not be valid unless passed by more than half of all members (including those who are not present) voting thereon.

Each member shall have one vote.

**Article 36**

Proposals on each of the topics shall be considered in order after the chairman announces the opening of the meeting.

**Article 37**

The chairman of the meeting has the right to decide the time for discussion.

**Article 38**

Matters proposed at the Audit Committee meeting are subject to collective consideration and voting on a case by case basis, i.e. all the proposals are considered by all members present and then are put to the vote one by one according to the order of consideration.

**Article 39**

The Audit Committee may, if considered necessary, invite other persons in connection with the proposals to attend the meeting to provide detailed information or express their opinions. Those who are not members of the Audit Committee, however, do not have voting rights on the proposals.

**Article 40**

Members present at the meeting shall consider the proposals and give full expression of their personal opinions with a conscientious and responsible attitude; members shall be responsible for their own votes.

## **Article 41**

If the Audit Committee meeting is held on site, voting is done by a show of hands in order of “for”, “against” and “abstain”. Each member present shall have only one vote on one proposal by a show of hands; should a member put his hand up more than once, only the last show of hand is valid. If a member attends the meeting on his own and another member’s behalves, one vote cast by him by a show of hands shall be considered two votes to the extent that his appointer agrees with him on the proposal; otherwise he may cast votes separately according to his own and his appointer’s opinions; in case the proxy makes no special statements during the voting, an appointer is deemed to agree with his proxy.

If an Audit Committee meeting is held by teleconference or video conference, voting is by signature. Resolutions executed in written form by all members of the Audit Committee are valid as if they have been passed at a meeting formally convened and held by the Audit Committee.

The chairman of the meeting shall count the votes on each proposal and announce the voting results on the spot, which shall be recorded by the minute taker.

## **Chapter 6 Resolutions and Minutes of Meetings**

## **Article 42**

Each proposal on which a prescribed number of valid votes are cast becomes a resolution of the Audit Committee upon announcement by the chairman of the meeting.

Resolutions of the Audit Committee come into effect upon signature by members present at the meeting. No change or alteration shall be made to the resolutions that have become effective without going through the legitimate procedure as required by laws, regulations, the Articles of Association, the Listing Rules and the Terms of Reference.

## **Article 43**

A member or the secretary of the Audit Committee shall report details of the resolutions, discussion draft, to the Board within 3 days after such resolutions are made.

- Article 44** The written documentation regarding such resolutions shall be kept by the Company as a corporate archive for a period of no less than 10 years during the subsistence of the Company.
- Article 45** The chairman of the Audit Committee or another member designated by him shall follow up and monitor the implementation of the resolutions of the Audit Committee, and may request and urge persons concerned to remedy the identified breach of resolutions. Should the persons concerned fail to follow such instructions, the chairman or his designated member shall refer the case to the Board.
- Article 46** The Audit Committee shall maintain written meeting minutes on which members present and the minutes taker shall sign their names. Members present shall have the right to request explanatory remarks on his speech at the meeting to be written down in the minutes.
- Minutes shall be maintained for meetings of the Audit Committee and shall be kept by its secretary. Drafts and final versions of meeting minutes shall be circulated to all members within a reasonable period of time after the meeting for their approval and records. Such meeting minutes shall be available for inspection by Directors.
- Article 47** Minutes of the Audit Committee meetings shall include at least the following information:
- 1 the date and venue of the meeting and name of the convener;
  - 2 names of attendees, with special notes added for proxies;
  - 3 the agenda of the meeting;
  - 4 highlights of members' speeches;
  - 5 the way of voting on each item or proposal and voting results (numbers of votes for and against and the number of votes to abstain shall be set out);
  - 6 other matters that should be explained or stated in meeting minutes.

## Chapter 7 Supplementary Provisions

- Article 48** Unless otherwise required, “**more than**” or “**less than**” referred to herein include the number itself.
- Article 49** Any matter not covered herein shall be subject to relevant laws, regulations or regulatory documents of the State, including the Listing Rules and the regulatory requirements and listing rules of the places on which the Company’s shares are listed (the “**Regulatory Requirements of Listing Places**”) and related provisions of the Articles of Association. In case of any conflict between the Terms of Reference and relevant laws, regulations, regulatory documents, Regulatory Requirements of Listing Places and the Articles of Association, the latter shall prevail.
- Article 50** After consideration and approval by the Board, the Terms of Reference will become effective and be implemented.
- Article 51** The Terms of Reference shall be interpreted by the Board.

14 March 2013

\* *For identification purposes only*