



FEISHANG

Feishang Anthracite Resources Limited

飛尚無煙煤資源有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock code: 1738)

Adopted: 22 January 2014
First Revision: 31 August 2015
Second Revision: 18 December 2018

Terms of Reference for Audit Committee

Feishang Anthracite Resources Limited
飛尚無煙煤資源有限公司
(the “Company”, and together with its subsidiaries, the “Group”)

Terms of Reference for Audit Committee

CONSTITUTION

1. The board of directors of the Company (the “**Board**”) established a committee known as the Audit Committee (the “**Committee**”) and adopted these terms of reference on 22 January 2014, which was further amended by the Board on 31 August 2015 and on 18 December 2018 (the “**Terms of Reference**”).

PURPOSE

2. The purpose of the Committee is to assist the Board in:
 - (a) ensuring that the Company has an effective financial reporting, risk management and internal control system in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”);
 - (b) overseeing the integrity of the financial statements of the Company;
 - (c) selecting and assessing the independence and qualifications of the Company’s external auditor; and
 - (d) ensuring effective communication between the Company’s directors, internal auditors and external auditors.

MEMBERSHIP

3. The members shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three (3) members, a majority of whom should meet the independence requirements from time to time as stipulated in the Listing Rules. At least one (1) member, who is an independent non-executive director, shall have the appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Listing Rules. Two (2) members shall form a quorum, whereby one (1) of whom has to be an independent non-executive director.
4. A former partner of the Company’s existing auditing firm (“**Firm**”) is prohibited from acting as a member of the Committee for a period of two (2) years from the date of his/her ceasing:
 - (a) to be a partner of the Firm; or
 - (b) to have any financial interest in the Firm, whichever is later.
5. The chair of the Committee (“**Chair**”) shall be appointed by the Board and should be an independent non-executive director and in his/her absence, members present may elect any member to chair a Committee meeting.

ATTENDANCE AT MEETINGS

6. The chief financial officer (“**Chief Financial Officer**”) and representative(s) of the external auditors shall attend meetings. The Chief Financial Officer (or such other person appointed by the Chair) shall be the secretary of the Committee and in his/her absence, such other person appointed by the Chair shall act as secretary of the relevant Committee meeting (“**Secretary**”).

ANNUAL GENERAL MEETING

7. The Chair or in his/her absence, another member of the Committee or failing this, his/her 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.
8. The Company’s senior 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.

FREQUENCY AND PROCEDURE OF MEETINGS

9. Unless otherwise stated herein, the meetings of the Committee are governed by the provisions regulating the meetings and proceedings of directors in the Company’s memorandum and articles of association.
10. Meetings between the Committee and the Company’s auditors shall be held not less than two (2) times a year and special meetings may be called at the discretion of the Chair or at the request of the Board or senior management to review significant control or financial issues. The members of the Committee may adopt from time to time the procedure governing the convening of the Committee meetings and the means and procedure for the passing of resolutions at meetings of the Committee.

AUTHORITY

11. The Committee is authorised by the Board to inspect all accounts, books and records of the Company and 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.
12. 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 at the Company’s expenses.
13. The Committee shall be provided with sufficient resources to perform its duties.

DUTIES

14. The duties of the Committee shall be:

RELATIONSHIP WITH EXTERNAL AUDITOR

- (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. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report, in accordance with Appendix 23 of the Listing Rules, a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view;
- (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 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;
- (d) 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 Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (e) to act as the key representative body for overseeing the Company's relations with external auditors;

REVIEW OF THE COMPANY'S FINANCIAL INFORMATION

- (f) 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 judgements 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 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;
- (g) regarding (f) above, members of the Committee:
 - (i) should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, they should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

OVERSIGHT OF THE FINANCIAL REPORTING, RISK MANAGEMENT, AND INTERNAL CONTROL SYSTEMS

- (h) to review the Company's financial control, risk management, and internal control systems;
- (i) to discuss 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;
- (j) to consider major investigations 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;
- (k) 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;
- (l) to review the Group's financial and accounting policies and practices;
- (m) 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;
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) to report to the Board on the matters in these Terms of Reference;
- (p) to establish, review and monitor a whistle blowing policy and system for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Group;

- (q) to review the connected transactions of the Group and to ensure its compliance with the Listing Rules;
- (r) to review from time to time as appropriate these Terms of Reference and the effectiveness of the Committee and recommend to the Board any necessary changes;
- (s) to report to the Board on the matters set out in these Terms of Reference and where the monitoring activities of the Committee reveal cause for concern or scope for improvement, the Committee shall make recommendations to the Board to address the issue or to make improvements; and
- (t) to consider other topics, as defined by the Board.

OTHER PROCEDURES

15. The Secretary, in consultation with the Chair, should be responsible for drafting the agenda for each Committee meeting. The Chair, with the assistance of the Secretary, shall ensure that all members have sufficient information in a timely manner (at least three days before each Committee meeting (or other agreed period)) to enable effective discussion at a Committee meeting and be briefed on the issues arising at each Committee meeting. The Secretary shall record full minutes of all duly constituted meetings of the Committee. All minutes shall record in sufficient detail the matters considered, decisions reached or recommendations made and any concerns raised by any member or the external auditor, including dissenting views of any member. The Secretary shall circulate the draft and final versions of the minutes of meetings and reports of the Committee to all Committee members for their comments and records within a reasonable time after each meeting. The minutes shall be available for inspection at any reasonable time on reasonable notice by any director of the Company. The Chair shall report at the forthcoming regular Board meeting any key decisions made and shall table before the Board an index of meetings and issues discussed.

PROVISION OF TERMS OF REFERENCE

16. The Committee should provide the Terms of Reference upon request and upload them to the Hong Kong Stock Exchange's website and the Company's website to explain the duties of the Committee and the authority the Board granted to it.
17. These Terms of Reference have been prepared in English and Chinese, and both versions possess equal status and have the same effect.