



中國稀土控股有限公司  
**China Rare Earth Holdings Limited**  
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 769)

**Terms of reference of the Audit Committee (“Committee”) of  
the Board (“Board”) of Directors (“Directors”) of  
China Rare Earth Holdings Limited (“Company”)**

**1. Constitution**

- 1.1 The Committee was established pursuant to a resolution passed by the Board at its meeting held on 29 September 1999.

**2. Membership**

- 2.1 Members of the Committee shall be appointed by the Board from amongst the members of the Board 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 (“**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

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 auditing firm; or
- (b) to have any financial interest in the auditing 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. If the Company has more than one company secretary at the material time, any of the company secretaries of the Company may act as the secretary of the Committee. 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 or secretary 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 (either orally or in writing), 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.

(Pursuant to paragraph A.1.3 of Appendix 14 of the Listing Rules, regular board meetings should be called by 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.
- (c) Notice shall be given to each Committee member in person orally or in writing or by telephone or by e-mail or by facsimile transmission at the telephone or facsimile or address or e-mail 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.
- (d) Any notice given orally shall be confirmed in writing as soon as practicable and before the meeting.
- (e) Notice of meeting shall state the purpose, 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. In respect of regular meetings of the Committee to be held as mentioned in clause 3.4 below, and so far as practicable for all other meetings of the Committee, the agenda and accompanying papers shall be sent in full to all the members of the Committee in a timely manner and at least three days before the intended date of the meeting of the Committee (or such other period as all the Committee members may agree).

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

3.3 **Attendance:** The Finance Director (if any), the Head of Internal Audit (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors shall normally attend meetings of the Committee. 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, without executive Board members present.

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 to convene a meeting, if they consider that one is necessary.

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

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

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

5.1 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 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;

- (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 an extraordinary general meeting, to replace and dismiss the auditors of the Group;
- (i) 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 at its meetings, if it considers this necessary; and
- (j) to exercise such powers as the Committee may consider necessary and expedient so that their duties under section 7 below can be properly discharged.

6.2 The Committee should be provided with sufficient resources to perform its duties.

## **7. Duties of the Committee**

7.1 The duties of the Committee shall be:

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

- (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;
- (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 discuss with the auditors the nature and scope of the audit and reporting obligations and ensure co-ordination where more than one audit firm is engaged before the audit commences;

- (d) 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 as 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;

***Review of the Company’s financial information***

- (e) 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;
- (f) In reviewing these reports (the Company’s annual report and accounts, half-year report and, if prepared for publication, quarterly report) 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 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;

- (ix) any significant or unusual items that are, or may need to be, reflected in such reports and accounts; and
  - (x) the cashflow position of the Group;
- and to provide advice and comments thereon to the Board;
- (g) Regarding (f) above:
- (i) members of the Committee 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) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;
- (h) 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, risk management and internal control procedures***

- (i) to review the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
- (j) to discuss the risk management and internal control systems with the 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;
- (k) to consider 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;
- (l) 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;

- (m) to review the Group's financial and accounting policies and practices;
- (n) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (o) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (p) 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;
- (q) 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;
- (r) to consider the appointment of any person to be a Committee member, auditors and accounting staff either to fill a casual vacancy or as an additional Committee member, auditors and accounting staff or dismissal of any of them;
- (s) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, 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;
- (t) to act as the key representative body for overseeing the issuer's relations with the external auditor;
- (u) to report to the Board on the matters set out above; and
- (v) to consider other topics, as defined or assigned by the Board from time to time.

## **8. Minutes and records**

- 8.1 The secretary of the Committee shall, at the beginning of each meeting, ascertain and record the existence of any conflicts of interest and minute them accordingly. The relevant member of the Committee shall not be counted towards the quorum and he must abstain from voting on any resolution of the Committee in which he or any of his associates has a material interest, unless the exceptions set out in note 1 to Appendix 3 to the Listing Rules apply.

- 8.2 Full minutes of Committee meeting and all written resolutions of the Committee shall be kept by the secretary of the meeting. The secretary to the Committee shall circulate the draft and final version of minutes of the meetings for their comments and records, in both cases within a reasonable time after the meeting (generally, meaning within 14 days after the meeting) or before the passing of the written resolutions. Once the minutes are signed, the secretary shall circulate the minutes and reports of the Committee to all members of the Board.
- 8.3 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.
- 8.4 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).

## **9. Annual general meeting**

- 9.1 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.
- 9.2 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.

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

- 10.1 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.



## **11. Powers of the Board**

- 11.1 The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules or if adopted by the Company, the Company's own 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.

## **12. Publication of the terms of reference of the Committee**

- 12.1 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.

Adopted on 1 January 2016 in replacement of the terms of reference of the Committee adopted on 23 March 2012.