

# **Yanzhou Coal Mining Company Limited**

## **Terms of Reference for the Audit Committee of the Board**

### **CHAPTER 1 GENERAL PROVISIONS**

**Article 1** The Company formulated these terms of reference to establish and improve the corporate governance structure of the Company and to ensure the Audit Committee under the Board of Directors to operate in a strict, standardized, orderly and efficient manner in accordance with the listing regulatory requirements including the Guidelines for the Governance of Listed Companies issued by the CSRC, the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Guidelines for the Work of Audit Committee of the Board of Directors of the Listed Companies issued by Shanghai Stock Exchange.

**Article 2** The Audit Committee under the Board of Directors is a special organ established by the Board of Directors which shall hold responsibility for the Board of Directors and shall be provided with sufficient resources to perform its duties and responsibilities. The audit committee may engage intermediaries for independent professional opinions, the cost of which shall be born by the Company

**Article 3** The Audit Committee shall perform its duties and responsibilities within the scope of duties prescribed under these terms of reference and its operation shall be independent and not interfered by other departments of the Company.

**Article 4** All procedures for convening meeting, voting method and approving proposals of the Audit Committee shall be in

compliance with relevant laws, regulations, Articles of Association and this Terms of Reference.

## **CHAPTER 2 COMPOSITION OF THE COMMITTEE**

**Article 5** The Audit Committee comprises five non-executive Directors, the majority of which are independent non-executive Directors and at least one member shall be an independent non-executive Director who has the appropriate professional qualifications or the appropriate accounting or relevant financial management expertise.

**Article 6** A member of the Audit Committee shall fulfill the basic conditions set forth below:

1. being qualified to hold the position of director in a listed company in accordance with the laws, administrative regulations and other relevant regulations;

2. having professional knowledge and business experience capable for performing the works and responsibilities of the Audit Committee;

3. being independent as required by the Guidelines on the Establishment of Independent Directorship of Listed Companies for independent Directors;

4. such other conditions as may be specified in the Articles of Association.

5. The former partner of the Company's external auditing firm currently employed by the Company shall not be member of the Audit Committee within two years from the date on which he ceases to be a partner of such auditing firm or he no longer entitles to financial benefits of such auditing firm, whichever is later.

**Article 7** The members of the Audit Committee shall be nominated by the Chairman, not less than one half of independent Directors or one-third of all Directors and shall be elected by the Board of Directors.

**Article 8** The internal legal department or other departments shall, when appointing and replacing members of the Audit Committee, assess and confirm the competency of the members. The Board of Directors of the Company shall make regular appraisals towards the independence and performance of the members of the Audit Committee, and change and replace the member not suitable for the incumbency in the Audit Committee.

**Article 9** The Audit Committee shall have one chairman who shall be an independent non-executive Director and in charge of the work of the Audit Committee. The chairman shall possess relevant professional knowledge and experiences in accounting or financial management. The chairman of the Audit Committee shall be a member of the Audit Committee appointed with the Board's approval.

**Article 10** The non-independent Directors of the Audit Committee shall not be the chairman of the committee, nor shall they vote on any resolutions of the Audit Committee.

**Article 11** The term of office of each member of the Audit Committee shall be consistent with the term he served in the Board, and his eligibility for re-election for successive terms shall be at the discretion of the Board.

**Article 12** Any member of the Audit Committee who no longer holds office as a Director shall automatically cease to be a member

of the Audit Committee and the vacancy shall be filled by the Board in accordance with the provisions of Article 5 to Article 9 set forth above.

**Article 13** The members of the Audit Committee shall, by means including induction and subsequent trainings and communication with the external auditors, be acquainted with the latest technologies and their respective responsibilities, maintain their professionalism and update their views on the Company and industry issues on a daily basis.

**Article 14** The audit and risks department of the Company shall be responsible for the daily operation of the Audit Committee, including convening meetings of the Audit Committee and circulating relevant documents.

### **CHAPTER 3 DUTIES AND POWERS**

**Article 15** The Audit Committee shall perform the following duties and responsibilities and shall report the following matters to the Board:

1.to decide the normal management expenses of the Audit Committee;

2.to appoint independent advisers and other advisers, if appropriate;

3.to evaluate the performance of the external auditors annually and approve their remuneration and terms of employment, and make proposals in respect of the appointment, re-appointment or dismissal of the external auditors to the Board and to handle any issues related to the resignation or dismissal of the external auditors;

4.to discuss the daily working standards for internal auditors with the external auditors; to examine the accounting policy and practices, financial position and financial reporting procedures of the Company;

5.to formulate and implement the policies regarding the provision of non-audit services by the external auditors, and report and make recommendations to the Board on any matters where action or improvement is needed;

6. to evaluate the works conducted by the external auditors, including examining and monitoring the independence and objectivity of the external auditing firms and the effectiveness of the audit procedures based on appropriate standards; and to discuss with the external auditors the nature and scope of audit and the related reporting obligations before the commencement of any audits;

7. to liaise with the Board of Directors and the management, and to hold at least two meetings with external auditors annually to discuss any issues encountered during the auditing process, and to ensure effective communication in respect of the following significant auditing issues: any significant accounting policies and their implementation; alternatives permitted under the appropriate accounting standards and the corresponding disclosure and the solutions mostly adopted by independent auditors; previous written communications between other independent auditors and the management (including but not limited to management proposals and unadjusted differences), and to act as the principal representative between the Company and the external auditors to monitor their

relationship and to ensure the external auditors can report to the chairman of the Audit Committee any time when necessary;

8. to review the written reports provided to the management of the Company by the external auditors related to the auditing status, and any significant doubt cast over the management regarding the accounting records, financial statements or internal monitoring system and the management's response to the aforementioned, and ensure the Board response to the concerned issues from external auditors in a timely manner;

9. to discuss with the external auditors any issues encountered during the auditing process and ensure any material findings and proposals of the external auditors and the feedbacks from the management are received, discussed and dealt with properly; to meet separately with the external auditors and discuss any matters to be discussed separately as considered necessary by both parties and ensure the external auditors can, if necessary, communicate with the chairman of the Audit Committee through effective channels; to consider whether certain circumstances would be detrimental to the judgment or independence of the external auditors in performing audit;

10. to hold meetings with the internal auditing department at least once a year, the frequency of which can be increased as required by works. The internal auditing staff shall report directly to the Audit Committee;

11. to appoint and determine the remuneration of the internal auditing staff. The Audit Committee shall monitor and examine the works conducted by the officer of internal auditors, whereas the

human resources department shall discuss and handle matters related to the remuneration and retention of the officer of internal auditors jointly with the Audit Committee;

12. to review and approve the internal audit budget and the ranks of the internal auditing staff and ensure sufficient resources are available to the internal audit department for its operation with appropriate status; to review and approve internal audit plans and to be informed regularly the implementation status of the internal audit plans throughout the year; to examine the effectiveness of the internal audit department in performing its duties and responsibilities and ensure its full functioning under the internal control system of the Company, etc.; to review the annual working reports of the internal auditing department; to review the internal audit plan for the forthcoming year and ensure its coverage includes major risk exposures; to give guidelines on the auditing methods and procedures of the internal auditing department; to hold accountability for the communication between the internal and external auditors and ensure appropriate coordination between them; to listen to the external accountants' reports on the annual audit, special audit, management proposals and other conditions of the Company; to meet separately with the head of internal audit department in performing its duties and responsibilities and discussed any matters to be discussed separately as considered necessary by both parties;

13. to review the analysis of the management or the external auditors, such as, among others, financial reporting issues of material importance and judgments to be made in preparing the

financial reports, including the analysis of the impact of alternative generally accepted accounting principles on the financial reports;

14. to be accountable for examining the completeness of the quarterly, interim and annual accounts and reports of the Company before disclosure of any financial information of the Company; to review the material opinions in relation to financial reporting, particularly (i) any changes to the accounting policies and practices; (ii) areas involving material judgments; (iii) significant adjustments arising due to auditing; (iv) the going concern assumptions of the Company and any qualifications; (v) the compliance of accounting standards and (vi) compliance of relevant requirements in the regulations of place where the securities of the Company are listed and other laws with respect to financial reporting. The Audit Committee shall liaise with Directors and the senior management and hold two meetings at least once a year regarding the above issues. The Audit Committee shall consider any material or unusual circumstances reflected or to be reflected in the financial information above and refer to any matters proposed by the accounting and financial reporting staff, the monitoring officer or auditors of the Company;

15. to hold meetings at least once a year, discuss with the management on the internal control systems to ensure the establishment of an effective internal control systems, to hear reports on the monitoring of the internal control, prepare self-assessment draft report of the internal control system and propose the same to

the Board for consideration; to listen to important opinions and recommendations made by the financial department, audit department and external auditors in respect of the financial reporting procedures and internal control systems as well as reports on the reasonableness of the management's works, and to compile a written letter of review opinions. Matters to be discussed shall include opinions as to whether the resources, qualifications and experience of employees of the Company in fulfilling its accounting and financial reporting duties are adequate and as to whether the training courses enrolled by the employees and the relevant budget are adequate;

16. to review the financial monitoring, internal control and risk management systems of the Company, and to monitor the establishment and operation of the internal control system, evaluate the existing and potential risk exposures of the Company and to make recommendations on further enhancement of the internal control system and risk management system; to coordinate with the management and the external and internal auditors and jointly review the quality, adequacy and effectiveness of the internal control, risk management and risk assessment of the Company and the existing material faults and weakness of the internal control system and report the same to the management; and to study on the key investigations results relating to the financial monitoring, internal control and risk management issues and the responses given by the management in this regard proactively or at the request of the Board of Directors;

17. to regularly listen to reports on anti-corruption by the monitoring department of the Company and review: (1) access to, maintenance of and responses to the complaint arrangements about accounting, internal control and financial issues; and (2) work procedures to deal with any improper actions which may arise due to the secret and anonymous reporting of employees as established by the Company to ensure fair and independent investigations are conducted and appropriated actions are taken by the Company in respect of the concerned issues;

18. to identify the related parties/connected persons of the Company and to report the same to the Board of Directors and Supervisory Committee, and to report to the relevant staff of the Company in a timely manner the related parties/connected persons so identified, and to undertake preliminary review on the connected transactions to be approved by the Board of Directors and submit the same to the Board of Directors for consideration and, within the scope of authorization of the Board of Directors, to consider and approve the connected transactions or accept filing of the connected transactions;

19. to ensure the Company is in compliance with other laws and regulations;

20. to be responsible for other matters required by laws, regulations, the Articles of Association or authorized by the Board of Directors, including research on the topics identified by the Board of Directors and the requirements related to the scope of works of the Audit Committee under the listing rules of the places where the securities of the Company are listed as amended from time to time.

## **CHAPTER 4 DECISION-MAKING PROCEDURES**

**Article 16** The auditing department of the Company shall be responsible for the provision of written information in respect of the Company to the Audit Committee, which includes:

1. the relevant financial reports of the Company;
2. the work reports of the internal and external auditors, respectively;
3. the external audit contracts and related work reports;
4. the disclosure of information to the public by the Company;
5. other related matters.

**Article 17** The Audit Committee meetings make assessment on the related reports and shall report the following matters to the Board:

1. evaluation of works conducted by and the appointment and replacement of the external auditing firms;
2. opinions on whether the internal audit system has been implemented effectively and the truthfulness and completeness of the financial reports of the Company;
3. opinions on the objectivity and truthfulness of the financial reports of the Company disclosed publicly and whether the material connected transactions of the Company are in compliance with the relevant laws and regulations;
4. evaluation of works conducted by the financial department, auditing department of the Company and the officer in charge;
5. other related matters.

## **CHAPTER 5     PROCEDURAL RULES**

**Article 18** At least four regular meetings of the Audit Committee shall be held each year and convened by the chairman of the Audit Committee.

**Article 19** In any of the following circumstances, the chairman of the Audit Committee shall hold a provisional meeting within seven working days:

1. proposed by the Board to convene a meeting;
2. proposed by the Supervisory Committee to convene a meeting;
3. proposed by not less than one-third of the committee members;
4. considered necessary by the chairman of the committee.

**Article 20** The notice of meeting convened by the Audit Committee shall be delivered by hand, by post or by facsimile. Notification period for serving the notice shall be seven days prior to the date of the meeting.

**Article 21** A notice of the Audit Committee meetings shall contain the following details:

1. the date and place of the meeting;
2. the duration of the meeting;
3. agenda to be considered at the meeting;
4. a clear statement explaining that committee members shall not be absent from the meeting without reasons and shall, in the event of absence for some reasons, submit to the committee the

proxy forms which set out the name of the members so delegated and the scope of delegation;

5. the date of issue of the notice.

**Article 22** The Audit Committee meetings shall be presided over by the chairman of the committee. Where the chairman of the committee is unable to perform his duties and responsibilities for any reasons, one member of independent director shall be designated by him to preside over the meeting.

**Article 23** Members of the Audit Committee shall attend the Audit Committee meetings and clearly deliver their opinions on matters reviewed in person. If they are not able to attend the meeting due to certain reasons, they may delegate other members to attend the meeting and give opinions on their behalf with a power of attorney signed by them. The power of attorney shall specify the scope of authorization and the term of validity. Each member can only represent by one person at most. When a member of independent Director is not able to attend the meeting due to certain reasons, he or she shall delegate other member of independent Director to attend the meeting on his or her behalf.

If a member does not attend the Audit Committee meeting in person, and does not authorize any representatives to attend the meeting, he or she shall be deemed to have waived the voting right at the relevant meeting.

**Article 24** The Audit Committee meetings may not be held unless more than two thirds of the members are present. All proposals of the Audit Committee reviewed and submitted to the Board of Directors shall be approved by more than half of all the

members. Matters that cannot be commented by the Audit Committee due to withdrawal of members from the meeting, shall be directly proposed to the Board for consideration.

**Article 25** Any member of the Audit Committee shall abstain from voting at the meeting if he or she has conflicts of interests in the matter considered at the meeting.

**Article 26** The Audit Committee shall ensure that its members are able to fully express their opinions and the final resolutions shall be signed by the attending members.

**Article 27** Members of the auditing department may attend the Audit Committee meetings and the Audit Committee may, when necessary, invite representative of external auditing institute, Directors, Supervisors, senior management, internal auditors, financial staff, legal consultant and other relevant personnel to attend the meeting.

**Article 28** Complete minutes of the Audit Committee meetings shall be prepared. Draft and final versions of minutes of the Audit Committee meetings shall be sent to all members of the Audit Committee normally within a reasonable time after the meeting for their comments and records respectively. Attending members and other attendees shall sign on the minutes of meetings.

Minutes of the Audit Committee meetings shall contain the following items:

1. the date and place of the meeting and the name of the convener;
2. the number and names of attending members and members appointed as proxies to attend the meeting;

- 3.the agenda of the meeting;
4. highlights of the speeches made by members;
5. the voting method and results of each proposal (the number of affirmative, negative and abstention votes shall be specifically indicated).

**Article 29** Documents and information in relation to minutes of the Audit Committee meetings shall be kept by the auditing department of the Company and filed with the Office to the Board.

**Article 30** The Audit Committee shall report to the Board of Directors of the Company in writing any resolutions passed at the meetings and the voting results at the conclusion of the meetings, except for those prohibited to be reported by laws or regulatory restrictions.

**Article 31** The Audit Committee shall address questions raised by the chairman of the committee or, in case of the absence of the chairman of the committee, another committee member or its proxy at the annual general meeting upon requested by the Chairman.

**Article 32** All members attending the Audit Committee meetings shall be obliged to keep all matters proposed at the meeting confidential and shall not disclose any information relevant to the meeting.

## **CHAPTER 6      SUPPLEMENTARY PROVISIONS**

**Article 33** These terms of reference shall be implemented since the date on which the Board's approval is obtained and will be published on the websites of the Company and the stock exchange

on which the Company is listed pursuant to the listing rules of the places where the securities of the Company are listed.

**Article 34** In cases of matters not dealt with in these terms of reference, the laws, regulations and the listing regulatory requirements shall prevail; if conflict arises, the laws, regulations and the listing regulatory requirements of the places where the Company is listed shall prevail.

**Article 35** These terms of reference are subject to the interpretation, formulation and amendment by the Board.