Rare Earth Magnesium Technology Group Holdings Limited

Terms of Reference for Audit Committee

(Approved by the Board on 18 March 2013 and amended on 31 December 2018)

These terms of reference of the Audit Committee (the "Committee") have been prepared based on the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules" and the "Exchange" respectively).

Constitution

1. The Board hereby constitutes and established an Audit Committee of the Board (the "Committee") with authority, responsibility and specific duties specified below.

Membership

2. The Committee shall be appointed by the Board from amongst the non-executive Directors of the Company and shall consist of a minimum of three members and a majority shall be independent. A quorum shall be two members. The majority of the members must be independent non-executive Directors (the "INEDs") and at least one of whom shall have the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

3. The Chairman of the Committee shall be appointed by the Board and should be an independent Director.

4. A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Committee for a period of 2 year from 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 later.

Authority

5. The Committee is authorised by the Board 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.

6. 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.

Responsibilities

7. The Committee is to serve as a focal point for communication between other Directors, the external auditors, the internal auditors and the Company's management as their duties relate to financial and other reporting, internal controls, and the external and internal audits (include other matters the Board deems necessary). The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, by satisfying themselves as to the effectiveness of the Company's internal controls and as to the sufficiency of the external and internal audits.

Specific Duties

8. The Committee is:

(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 and to 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;

(d) To report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(e) To monitor integrity of the Company's interim and annual financial statements and annual and interim report and accounts, and to review significant financial reporting judgments contained in them before submission to the Board, focusing 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and legal requirements in relation to financial reporting;

(f) Regarding (e) 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) to consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for accounting and financial reporting function, compliance officer or auditors;

(g) to review the Company's financial controls, internal control and risk management systems;

(h) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function;

(i) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(j) where an internal audit function exits, 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;

(k) to review the Group's financial and accounting policies and practices;

(l) 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;

(m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(n) to report to the Board on the matters in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules;

(o) 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;

(p) to act as the key representative body for overseeing the Company's relations with the external auditor; and

(q) to consider other topics, as defined by the Board.

Attendance at meetings

9. Members of the Committee shall attend designated meeting with the external auditing firm of the Company or other appropriate person upon their invitation from time to time so as to address the concerns raised by such external auditing firm or such other appropriate person in relation to audit of the Company. Other Board members shall also have the right of attendance. At least once a year, the Committee shall meet with the external auditors without executive Board members present.

10. The Company Secretary shall be the secretary of the Committee.

Frequency of meetings

11. Meetings shall be held not less than four times a year. Additional meetings should be held as the work of the Committee demands.

Reporting procedures

12. The Committee should report to the Board on a regular basis.

13. At least annually, the Committee should present a report to the Board which addresses the work and findings of the Committee during the year.

14. The secretary shall circulate the minutes of meetings of the Committee to all members of the Board.