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progress

MMG LIMITED

(Company)

TERMS OF REFERENCE

OF

THE AUDIT AND RISK MANAGEMENT COMMITTEE

(formerly the AUDIT COMMITTEE and, separately, the RISK MANAGEMENT COMMITTEE)

(Approved by the board of directors of the Company as terms of reference for an audit committee at a meeting held on 2 July 1999, and amended on 31 August 1999, 14 June 2002, 18 August 2004, 25 August 2005, 9 March 2009, 15 February 2011, 28 March 2012, 7 May 2014 and 1 January 2016. Separately approved by the board of directors of the Company as terms of reference for a risk management committee at a meeting held on 20 October 2015. Amended and augmented as terms of reference for a combined audit and risk management committee on 4 December 2019)

1. CONSTITUTION

- 1.1 The Audit Committee was established pursuant to a resolution passed by the board of directors of the Company (Board) at its meeting held on 2 July 1999. The Risk Management Committee was established pursuant to a resolution passed by the Board at its meeting held on 20 October 2015. The Audit Committee and the Risk Management Committee were reconstituted and merged as the Audit and Risk Management Committee (Committee) pursuant to a resolution passed by the Board at its meeting held on 4 December 2019. The Committee shall report directly to the Board.

2. MEMBERSHIP

- 2.1 Members of the Committee (Members) shall be appointed by the Board from amongst the non-executive Directors of the Company. The Committee shall consist of not less than three Members, at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules). The majority of the Committee members must be independent non-executive Directors.
- 2.2 The Chair of the Committee shall be appointed by the Board and shall be an independent non-executive Director.
- 2.3 The General Counsel, or their delegate, shall be the secretary of the Committee (Secretary).
- 2.4 The appointment of the Members may be revoked, or additional members may be appointed to the Committee by separate resolutions passed by the Board and by the Committee.

3. PROCEEDINGS OF THE COMMITTEE

- 3.1 **Notice:** Unless otherwise agreed by all the Members, a meeting shall be called by at least seven days' notice. A Member may, and on the request of a Member, the Secretary shall, at any time summon a Committee meeting. Notice shall be given to each Member in person orally (which shall be confirmed in writing), in writing, by way of telephone, email, facsimile or any other remote electronic information delivery system at the address as notified by the Member to the Secretary from time to time, or otherwise in such other manner as the Members may from time to time determine. The notice of meeting shall state the 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 for the purposes of the meeting.
- 3.2 **Quorum:** The quorum of the Committee meeting shall be three Members.
- 3.3 **Frequency:** Meetings shall be held not less than four (4) times a year, and, in respect of Audit Matters, at least twice a year at the time prior to the approval of the interim results and the financial year results respectively by the Board. A Member or the external auditors may request a meeting if they consider that one is necessary.

- 3.4 **Attendance:** The Committee may invite other Board members, senior management, external or internal auditor or other person to be present at meetings. The Board members shall have the right of attendance. Management representatives and others attend by invitation only and for avoidance of doubt are not members of the Committee. The CFO and representatives of the external and internal auditors shall normally attend meetings in respect of Audit Matters.

4. WRITTEN RESOLUTIONS

- 4.1 Written resolutions may be passed by a majority of the Members in writing.

5. ALTERNATE MEMBERS

- 5.1 A Member may appoint an alternate but such attendance shall not be counted as attendance by the Member himself.

6. AUTHORITY OF THE COMMITTEE

- 6.1 The Committee may exercise the following powers:
- (a) to investigate any activities within its terms of reference (as mentioned in paragraph 7 below). It is authorised to seek any information it requires from any employees and all employees are directed to co-operate with any request made by the Committee;
 - (b) to obtain outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
 - (c) to, from time to time, establish sub-committees to assist it in carrying out its functions and responsibilities and adopt terms of reference setting out matters relevant to the composition, responsibilities and functions of such sub-committees and other matters as the Committee may consider appropriate.

7. DUTIES OF THE COMMITTEE

I. AUDIT MATTERS

- 7.1 In respect of audit matters (Audit Matters), the duties of the Committee shall be:

Relationship with the Group'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. In relation to the appointment and removal of the auditor, the Committee should remind the Board that the Company must:

- (i) at each annual general meeting appoint an auditor to hold office from the conclusion of that meeting until the next annual general meeting;
 - (ii) not remove the auditor before the end of its term of office without first obtaining shareholders' approval at a general meeting;
 - (iii) send a circular proposing the removal of the auditor to shareholders with any written representations from the auditor, not less than 10 business days before the general meeting; and
 - (iv) allow the auditor to attend the general meeting and make written and/or verbal representations to shareholders at the general meeting;
- (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 act as the key representative body for overseeing the Group's relations with the external auditor;

Review of financial information of the Company

- (e) to monitor integrity of the Company's financial statements and the 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 standards;
 - (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 any applicable 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 Group's auditors; and
 - (ii) the Committee should 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 Group's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the Group's financial reporting system

- (g) to review the Group's financial controls, and in particular consider:
 - (i) the scope and quality of management's ongoing monitoring of the internal audit function (for clarify purposes, the internal audit function reports to the Committee); and
 - (ii) effectiveness of the Group's processes for financial reporting and listing rules compliance;
- (h) to review and evaluate the process in relation to the Group's reporting of connected transactions and continuing connected transactions, and to review and approve the Group's connected transaction standard and any amendments thereto as appropriate;
- (i) 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 Group, and to review and monitor its effectiveness;
- (j) to review the Group's financial and accounting policies and standards;
- (k) 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;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters in the code provision C.3 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules and these terms of reference;
- (n) to monitor and review arrangements employees of the Group and other interested parties who deal with the Group (including customers and suppliers) can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to review and make recommendations to the Board as appropriate in consultation with the General Counsel on the amendments or changes to such framework and arrangements. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

- (o) to oversee the Group's funding requirements, monitor material issues arising from the Group's treasury function and referring these matters to the Board for consideration as appropriate; and
- (p) to consider other topics as defined by the Board.

II. RISK MANAGEMENT MATTERS

7.2 In respect of risk management matters (Risk Matters), the Committee shall assist the Board with regard to the oversight of the Company's risk management and internal control systems and practices by:

Oversight of the Company's Risk Management and Internal Control Systems

- (a) reviewing the Company's risk management and internal control systems;
- (b) discussing the risk management and the 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 Group's accounting and financial reporting function;
- (c) considering 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;
- (d) considering:
 - (i) the changes, since the last annual review, in nature and extent of significant risks, and the Group's ability to respond to changes in its business and external environment;
 - (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems;
 - (iii) the extent and frequency of communication of monitoring results to the Board (or the Committee) which enables it to assess control of the Group and the effectiveness of risk management; and
 - (iv) significant control failings or weaknesses that have been identified during the period, and the extent to which they have resulted in unforeseen outcome or contingencies that have had, could have had or may in the future have, a material impact on the Group's financial performance or condition;
- (e) developing an understanding of key risk areas and the consequences of key risk events;
- (f) gaining assurance as to the adequacy of the Company's policies, standards and processes for integrating risk management into its operations;

- (g) reviewing the insurance strategy and determining the extent to which it aligns with the risk tolerance of the Company and considering the sufficiency of insurance coverage generally (including the insurance coverage for directors and officers' liabilities and to approve any changes to the directors and officers' insurance coverage and terms and conditions thereof from time to time);
- (h) reviewing and overseeing high-level non-financial reporting risk related matters including:
 - (i) the nature and extent of significant risks, and the Group's ability to respond to changes in its business and external environment; and
 - (ii) the scope and quality of management's ongoing monitoring and management of risks which may have a material impact on the Group's financial performance or condition;
- (i) reviewing and considering regular risk management reports prepared by management including reporting timelines;
- (j) overseeing the establishment and implementation of a risk management framework, reviewing the effectiveness of the risk management framework in identifying and managing risks and internal control systems;
- (k) establishing a process through which the internal audit function is required to refer matters arising in the course of their work pertaining to the objectives and responsibilities of the Committee to the Committee. The Committee will ensure that the other board committees are advised of their work in the relevant areas;
- (l) considering material issues communicated to it by the other Board Committees arising from the work of the internal audit function relating to matters which fall within the scope of the objectives and responsibilities of the Committee;

III. GENERAL

7.3 The Committee will ensure that:

- (a) material issues arising from the work of the Committee that relate to matters which fall within the responsibilities of the other board committee (i.e. the Governance, Remuneration and Nomination Committee) should be referred or communicated to the other board committee and considered by the other board committee; and
- (b) where there is a perceived overlap of responsibilities between the Committee and the other board committee, the Chairs of the Committees shall have the discretion to agree the most appropriate committee to fulfil any obligation and failing agreement shall refer the matter to the Board. An obligation under the terms of reference of the Committee will be deemed by the Board to have been fulfilled provided that it is dealt with by the other board committee.

8. REPORTING PROCEDURES

- 8.1 Full minutes of the Committee meetings should be kept by the Secretary, and should record in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors or dissenting views expressed. Subject to paragraph 8.2 below, draft and final versions of the minutes of Committee meetings should be sent to all the Members for their comment and records, in each case within a reasonable time after the meeting.
- 8.2 In the case of final version of the minutes of the Committee meetings, once endorsed by the Chair of the Committee they should be sent to all Board members prior to the next Board meeting where practicable.
- 8.3 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.

9. CONTINUING APPLICATION OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

- 9.1 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.

10. POWERS OF THE BOARD

- 10.1 The Board may, subject to compliance with the articles of association of the Company and any applicable listing rules, 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.