



MEXAN LIMITED

茂盛控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 22)

TERMS OF REFERENCE FOR AUDIT COMMITTEE

Purpose

1. The purpose of the Audit Committee is to assist the board of directors (the “**Board**”) of Mexan Limited (the “**Company**”) in considering how the Board should apply financial reporting and internal control principles and for maintaining an appropriate relationship with the Company’s auditors.

Composition

2. The Audit Committee shall comprise a minimum of three members consisting of non- executive directors only and a majority of which must be independent non-executive directors of the Company. The Audit Committee must comprise of at least one independent non-executive director who has appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) (as amended from time to time). A quorum shall be two members.
3. The chairman of the Audit Committee (the “**Chairman**”) shall be appointed by the Board and must be an independent non-executive director.

Meetings

4. The Audit Committee shall meet at least twice annually or more frequently if circumstances require and shall act by unanimous written consent. The Board, any audit committee member and the external auditors may request a meeting if they consider that one is necessary.
5. The financial director of the Company, the head of internal auditor and a representative of the external auditors shall normally attend meetings. Other Board members shall also have the right of attendance. However, at least twice a year the Audit Committee shall meet with the external and internal auditors without executive directors present.
6. The Chairman (or in his or her absence, a member designated by the Chairman) shall preside at all meetings of the Audit Committee. The Chairman shall be responsible for leading the Audit Committee, including scheduling meetings, preparing agendas and making regular reports to the Board.
7. The company secretary of the Company (the “**Company Secretary**”) shall be the secretary of the Audit Committee.

* For identification purpose only

Access

8. The Audit Committee shall have full access to management and may invite members of management or others to attend its meetings. The Audit Committee shall consult the chairman and/or managing director of the Company about their proposals relating to financial reporting and internal control matters and the Company's relationship with the Company's auditors.

Reporting Procedures

9. The Audit Committee shall evaluate and assess the effectiveness of the Audit Committee and the adequacy of these Audit Committee Terms of Reference on an annual basis and recommend any proposed changes to the Board.
10. Minutes of meetings of the Audit Committee (draft and final versions) and the record of individual attendance at such meetings shall be prepared by the Company Secretary which shall be sent to all members of the Audit Committee and members of the Board as soon as practicable after the conclusion of any meeting of the Audit Committee.

Authority

11. The Audit Committee is authorized by the Board to investigate any activity within these terms of reference. It is authorized to seek any information it requires from any employee and all employees will be directed to co-operate with any request made by the Audit Committee.
12. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise at meetings of the Audit Committee if it considers this necessary.
13. The Audit Committee shall be provided with sufficient resources to discharge its duties.

Duties

14. The duties of the Audit Committee shall include the following:
 - (a) to be primarily responsible for making recommendation 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 resignation or dismissal of that auditor;
 - (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 Audit 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 policies regarding the engagement of an external auditor to supply non-audit services. For this purpose, an external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

- (d) to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit 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; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (e) in relation to paragraph (d) above: (i) members of the committee must liaise with the Company's board of directors and senior management and the committee must meet, at least once 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 such reports and accounts and must 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;
- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (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 Company, and to review and monitor the effectiveness of the internal audit function;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of 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 set out in the Code on Corporate Governance Practices (Appendix 14 of the Listing Rules);
- (n) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;
- (o) to act as the key representative body for overseeing the Company's relationship with the external auditor;
- (p) to review ongoing connected transactions of the Company and ensure compliance with terms of approval by shareholders of the Company; and
- (q) to consider such other matters as the Board may from time to time determine.