金力永磁
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JL MAG RARE-EARTH CO., LTD.

江西金力永磁科技股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 06680)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Chapter 1 General Provisions

Article 1 In order to enhance the decision-making function of the Board of Directors, perform the pre-audit and professional audit, ensure the Board of Directors' effective supervision over its management, and improve its corporate governance structure of the Company, the Company hereby established the Audit Committee of the Board of Directors (the "**Audit Committee**") and formulated the Terms of Reference in accordance with the Company Law of the People's Republic of China, the Code of Corporate Governance of Listed Companies, the Rules Governing the Listing of Shares on the ChiNext Market of Shenzhen Stock Exchange, the Guidelines of the Shenzhen Stock Exchange No. 2 for the Application of Self-Regulation Rules for Listed Companies for the Standardized Operation of Companies Listed on the ChiNext Board, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**"), the Articles of Association of JL MAG RARE-EARTH CO., LTD. (the "**Articles of Association**") and the other relevant regulations.

Article 2 The Audit Committee is a specific body established by the Board of Directors under relevant laws and regulations to be primarily responsible for coordinating, overseeing and inspecting internal and external auditing works.

Chapter 2 Composition

Article 3 The Audit Committee shall consist three non-executive directors, more than half of whom shall be independent non-executive directors and at least one member shall be an independent non-executive director with professional qualifications or appropriate accounting or relevant financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules.

The members of the Audit Committee shall comply with the requirements of listing rules of the place where shares of the Company have been listed.

The former partner of the current external audit firm of the Company shall not be a member of the Audit Committee within two years from the following date (whichever is later):

(i) the date on which the former partner ceased to be a partner of the accounting firm; or

(ii) the date on which the former partner ceased to enjoy the financial benefits of the accounting firm.

Article 4 The members of the Audit Committee shall be nominated by the Chairman of the Board, more than one half of independent non-executive directors, or one-third of all the directors, and elected by the Board of Directors.

Article 5 The Audit Committee shall have one chairman (convener) who shall be an independent non-executive director and an accounting professional, and the chairman shall be elected by the Board of Directors and be responsible for chairing the Audit Committee.

Article 6 The term of office of the Audit Committee shall be identical to that of the Board of Directors. A member may be re-elected upon the expiration of his/her term of office. Where a member ceases to be a director of the Company during the term or a member who should be an independent non-executive director ceases to have the independence required by the Articles of Association and the Hong Kong Listing Rules, his/her membership shall be terminated automatically. The Board of Directors shall appoint new member(s) in accordance with the Articles of Association and the Terms of Reference.

Article 7 The Audit Committee shall have an internal audit department as an administrative office, which is responsible for the liaison of routine work and organization of meetings.

Chapter 3 Duties and Authorities

Article 8 The main duties and authorities of the Audit Committee are as follows:

Relationship with external auditor

1. Making recommendations to the Board of Directors on the appointment, reappointment and removal of external auditors, approving the compensation and terms of engagement for external auditors, as well as handling any matters regarding the resignation or dismissal of such external auditors;

2. Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and the Audit Committee shall discuss with the external auditor the nature and scope of the audit and the relevant reporting obligations before the audit commences;

3. Formulating and implementing polices on engaging an external auditor to provide 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 Audit Committee shall report and make recommendations to the Board of Directors on any matters where action or improvement is needed;

Reviewing the Company's financial information

4. Reviewing the completeness of the Company's financial statements, annual reports and accounts, interim reports and (if to be published) quarterly reports, and the significant views on financial reporting set out in financial statements and reports. Before submitting the financial reports to the Board of Directors for consideration, the following matters are specifically addressed:

   (i) any changes of accounting policies and practices;

   (ii) major judgmental areas;

   (iii) significant adjustments resulting from audit;

   (iv) the going concern assumptions and any qualified opinions;

   (v) compliance with accounting standards; and

   (vi) compliance with relevant provisions in relation to financial reporting under Hong Kong Listing Rules and laws;

5. For the Article 4 above:

   (i) the members of the Committee should liaise with the Board of Directors and senior management and the Committee must meet, at least twice a year, with the auditor of the Company; 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 give due considerations to any matters that have been raised by the Company's staff being responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the Company's financial reporting system, risk management and internal control systems

6. Reviewing the Company's financial controls, and unless expressly addressed by a risk committee under the Board of Directors, or by the Board of Directors itself, reviewing the Company's risk management and internal control systems;

7. Discussing the risk management and internal control systems with the management to ensure that management has performed its duty to build effective systems. This discussion shall include the adequacy in respect of resources, staff qualifications and experience, and training programs for staff and related budget in the Company's accounting and financial reporting function;

8. Considering major investigation findings on risk management and internal control matters as delegated by the Board of Directors or on its own initiative and the management's response to these findings;

9. If an internal audit function of the Company exists, ensuring the coordination between internal and external audits; ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company; and reviewing and monitoring its effectiveness;

10. Reviewing the financial and accounting policies and practices of the Group;

11. Reviewing the external auditor's letter of statement for audit to the management, any major issue raised by the auditor to the management on the accounting records, financial accounts or the control system and the response from the management;

12. Ensuring the Board of Directors to give response in time on the issues forwarded in the external auditor's letter of statement for audit to the management;

13. Reporting to the Board of Directors on matters related to the code provisions set out in the Corporate Governance Code under Appendix 14 of the Hong Kong Listing Rules;

14. Considering other topics as defined by the Board of Directors;

15. Other functions and powers;

16. Reviewing the following arrangements set by the Company: employees of the Company can, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for the Company to make a fair and independent investigation on these matters and take appropriate actions therefor;

17. Acting as the major representative of both the Company and external auditor, and be responsible for overseeing the relationship between them; and

18. The Audit Committee should establish a whistle blowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company.

The Audit Committee shall make available its terms of reference on The Stock Exchange of Hong Kong Limited's website and the Company's website, explaining its role and its authority which the Board of Directors has delegated.

Article 9 The Audit Committee shall report to the Board of Directors and submit its proposals to the Board of Directors for review and approval. It shall exercise the duties and powers of the Supervisory Committee as stipulated in the Company Law.

Chapter 4 Decision-making Procedures

Article 10 The internal audit department is responsible for preliminary preparations and providing the following relevant written information of the Company for the Audit Committee to make decision-making:

(i) relevant financial reports of the Company;

(ii) work reports of internal and external auditors;

(iii) external audit contracts and relevant work reports;

(iv) the Company's information disclosure;

(v) audit reports on the Company's major connected transactions;

(vi) other relevant matters.

Article 11 The meeting of the Audit Committee shall review reports offered by the internal audit department and submit the written resolutions formed on the following matters to the Board of Directors for discussion:

(i) performance appraisal of external auditor and the appointment and change of external auditor;

(ii) whether the Company's internal audit systems have been implemented effectively and whether the Company's financial reports are complete and true;

(iii) whether information disclosed by the Company including financial reports is objective, truthful and whether the Company's major connected transactions are in compliance with the relevant laws and regulations;

(iv) performance appraisal of the internal financial department and audit department of the Company, including their persons-in-charge;

(v) other relevant matters.

Chapter 5 Working Procedures

Article 12 The working procedures for the Audit Committee include the following duties and responsibilities:

(i) The Audit Committee shall decide the schedule of auditing annual financial reports through communication with the auditor;

(ii) Instructing the auditor to submit audit reports within the period agreed, and recording the method, times and results of the instructions to the auditor in writing which shall be confirmed with the signature of the relevant persons in charge;

(iii) The Audit Committee shall review the financial accounting reports prepared by the Company and formulate its opinions in writing before entrance of the certified public accountants for the annual audit;

(iv) Strengthening the communication with certified public accountants for annual audit after their entrance, and review such financial accounting reports again after the certified public accountants for annual audit give their preliminary audit opinions and put down its opinions in writing;

(v) The Audit Committee shall vote for the annual financial accounting reports and submit such reports to the Board of Directors after the resolutions are made;

(vi) The Audit Committee shall submit the final report on the Company's audit work engaged by the auditor for the current year and the resolution regarding renewing the engagement of, or replacing, the auditor for the next year to the Board of Directors;

(vii) The Audit Committee shall issue an annual internal control self-evaluation report on the establishment and implementation of the internal control system in relation to financial reporting and information disclosure matters based on the report issued by the internal audit department and relevant information. The Board of Directors shall form a resolution on the internal control self-evaluation report while it considers the annual report.

Chapter 6 Procedural Rules

Article 13 The meetings of the Audit Committee shall be classified into regular meetings and extraordinary meetings, with regular meetings being held at least four times a year and at least once a quarter, and extraordinary meetings being proposed by the members of the Audit Committee or being held when the convener considers necessary. All members of the Audit Committee shall be notified three days prior to the meeting and the meeting shall be chaired by the Chairman, who may delegate another member (an independent non-executive director) to chair the meeting if he/she is unable to attend.

Article 14 The meeting of the Audit Committee shall only be held in the presence of more than two-thirds of the members; each member shall have one vote; and resolutions made at meetings must be approved by more than half of all the members.

Article 15 Votes shall be made by poll at a meeting of the Audit Committee; voting at an extraordinary meeting of the Committee may be by correspondence.

Article 16 Members of the internal audit department may attend the meetings of the Audit Committee and, if necessary, may also invite the directors and senior management of the Company to attend the meetings.

Article 17 If necessary, the Audit Committee may engage intermediaries to provide professional advice for its decision-making at the expense of the Company.

Article 18 The procedures for convening meetings of the Audit Committee, the manner of voting and the resolutions to be passed at the meetings must be made in accordance with relevant laws, regulations, regulatory documents, listing rules of the stock exchange where the shares of the Company are listed, the Articles of Association and requirements of the Terms of Reference.

Article 19 The meetings of the Audit Committee shall be recorded and the members present at the meetings shall sign the minutes; the minutes shall be kept by the secretary of the Board of Directors of the Company for a period of not less than ten years.

Article 20 The resolutions passed at the meetings of the Audit Committee and the voting results shall be reported in writing to the Board of Directors of the Company.

Article 21 All members present at the meeting shall be under an obligation of confidentiality with respect to the matters discussed at the meeting and shall not disclose the relevant information without authorization.

Chapter 7 Addendum

Article 22 The Terms of Reference, so as its amendments, shall be effective from the date of approval by the Board of Directors.

Article 23 Matters not covered by the Terms of Reference shall be handled pursuant to the provisions of relevant laws, regulations, regulatory documents, listing rules of the stock exchange where the shares of the Company are listed and the Articles of Association. In case of any conflict between the Terms of Reference and relevant laws, regulations, regulatory documents and listing rules of the stock exchange where the shares of the Company are listed to be promulgated by China in future, such matters shall be handled pursuant to the provisions of relevant laws, regulations, regulatory documents and listing rules of the stock exchange where the shares of the Company are listed, and the Terms of Reference shall be revised promptly and submitted to the Board of Directors for consideration and approval.

Article 24 The right to interpret the Terms of Reference belongs to the Board of Directors of the Company.

JL MAG RARE-EARTH CO., LTD.

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