

TAUNG GOLD INTERNATIONAL LIMITED (the “Company”)
TERMS OF REFERENCE OF
AUDIT COMMITTEE (the “Committee”)

A. Constitution

- A.1 The Committee has been set up by the Company’s Board of Directors (the “Board”), pursuant to a resolution passed by the Board on 20 September 2004.
- A.2 These terms of reference with the authority and duties of the Committee have been approved by the Board on 16 March 2012 and subsequently on 27 February 2019 which superseded previously adopted terms of reference. The Board has the authority to review and amend these terms of reference from time to time.

B. Membership

- B.1 Members of the Committee (the “Member(s)”) shall be appointed by the Board. The Committee shall comprise Non-executive Directors only and shall consists of a minimum of three Members, at least one of who is an Independent Non-executive Director with 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”).
- B.2 The chairman of the Committee shall be appointed by the Board. The Committee must be chaired by an Independent Non-executive Director. All Independent Non-executive Directors must meet the independence requirements under the Listing Rules.
- B.3 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 years from the date of the person ceasing:-
- (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm,
- whichever is the later.

C. Authority

- C.1 The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- C.2 The 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 if it considers this necessary.
- C.3 The Committee should be provided with sufficient resources to perform its duties.

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D. Responsibilities and Duties

D.1 The duties of the Committee should include at least the following:-

Relationship with the Company’s auditors

- (a) To be primarily responsible for making recommendation to the Board on the appointment, re-appointment 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. 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;

Review of financial information of the Company

- (d) To monitor integrity of financial statements of the Company and the Company’s annual report and accounts, interim report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing the Company’s annual report and accounts, interim report and, if prepared for publication, quarterly reports before submission to the Board, the Committee should focus 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 Listing Rules and legal requirements in relation to financial reporting;

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- (e) Regarding (d) above:-
- (i) Members must liaise with the Board, senior management and the person appointed as the chief financial officer, controller or principal accounting officer and the Committee must meet, at least twice a year, with the Company’s auditors;
 - (ii) The Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts and it should give due consideration to any matters that have been raised by the chief financial officer or controller, principal accounting officer, compliance officer or auditors; and
 - (iii) The Committee should discuss problems and observations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);

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

- (f) To review the Company’s financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company’s risk management and internal control systems;
- (g) To discuss the risk management and 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 Company’s accounting and financial reporting function;
- (h) To consider 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;
- (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 its effectiveness;
- (j) To review the Company and its subsidiaries’ (the “Group”) financial and accounting policies and practices;

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- (k) 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;
- (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 Section D of these Terms of Reference;
- (n) The chairman of the Committee or in his absence, another Member or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting;
- (o) To ensure that an external auditor’s provision of non-audit services does not impair its independence or objectivity and follow the “A Guide for Effective Audit Committees” published by the Hong Kong Institute of Certified Public Accountants and its subsequent amendments from time to time approved by the Committee;
- (p) To receive and respond any concerns in relation to the Company’s financial report, risk management and internal control raised by employees;
- (q) 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;
- (r) To act as the key representative body for overseeing the Company’s relations with the external auditor; and
- (s) To consider other topics, as defined by the Board.

E. Meetings

- E.1 Unless otherwise stipulated herein, the meetings and proceedings of the Committee shall be governed by the provisions contained in the Bye-laws of the Company for regulating the meetings and proceedings of Directors. Unless otherwise determined by the Board, the quorum for the meeting of the Committee shall be two Members.

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- E.2 The Committee should meet regularly and Committee meetings should be held at least 4 times a year. It is expected that such regular Committee meetings will normally involve the active participation, either in person or through other electronic means of communication, of a majority of Members entitled to be present.
- E.3 Arrangements should be in place to ensure that all Members are given an opportunity to include matters in the agenda for regular Committee meetings.
- E.4 The external auditors may request a meeting if they consider that one is necessary.
- E.5 The chief financial officer or controller, principal accounting officer, the Head of Internal Audit (if any), and the external auditors may attend Committee meetings. At least twice a year the Committee shall meet with the external auditors and/or internal auditors (if any) without Executive Directors present.
- E.6 Notice of at least 7 days should be given of a regular Committee meeting to all Members of the Committee meetings. For all other Committee meetings, reasonable notice should be given.
- E.7 The Company Secretary of the Company or his nominee shall be the secretary of the Committee.
- E.8 All Members should have access to the advice and services of the secretary of the Committee to ensure that Committee procedures, and all applicable rules and regulations, are followed.
- E.9 Full minutes of Committee meetings or written resolutions should be kept by the secretary of the Committee and should be open for inspection at any reasonable time on reasonable notice by any Member or Director. Draft and final versions of minutes of the Committee meetings or written resolutions should be sent to all Members of the Committee for their comment and records, within a reasonable time after the meeting is held or before the passing of the written resolutions.
- E.10 If a Member has a conflict of interest in a matter to be considered by the Committee which the Committee has determined to be material, the matter should be dealt with by a physical Committee meeting rather than a written resolution and the interested Member shall not vote nor shall he be counted in the quorum present at the relevant meeting of the Committee.
- E.11 A resolution in writing signed by all Members for the time being shall be as effective for all purposes as a resolution of the Members passed at a meeting duly convened, held and constituted.

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F. Reporting procedures

- F.1 The secretary of the Committee shall circulate the minutes of Committee meetings or written resolutions, reports of the Committee and relevant information to all Directors.
- F.2 The Committee should report back to the Board on their decisions or recommendations.
- F.3 Where the Board disagrees with the Committee’s view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
- F.4 These terms of reference are available on the Company’s website at www.taunggold.com and HKExnews website at www.hkexnews.com.