

China First Chemical Holdings Limited

(Incorporated in the Cayman Islands.)

(the “**Company**”)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE (the “**Committee**”)

1. Membership

- 1.1 The Audit Committee shall be appointed by the Board and shall consist of not less than three members (“Members”).
- 1.2 All Members shall be formed by non-executive directors, of which more than half of whom should be Independent Non-Executive Directors (“INEDs”) and at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise.
- 1.3 The Chairman of the Audit Committee shall be appointed by the Board and must be an INED.
- 1.4 A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of one year commencing on the date of his/her ceasing (a) to be a partner of the firm or (b) to have any financial interest in the firm, whichever is the later.
- 1.5 The term of appointment of the Audit Committee Members are determined by the Board at the date of appointment

2. Secretary

- 2.1 The Company Secretary of the Company shall be the secretary of the Committee.
- 2.2 The Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Audit Committee.

3. Meetings

- 3.1 Audit Committee meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary

- 3.2 Notice of any meetings of the Committee has to be given 14 days prior to any such meeting being held, unless all the Members unanimously waive such notice. Notice of any adjourned meeting is not required if the adjournment is for less than 14 days.
- 3.3 The quorum of the Audit Committee shall be any two Members, one of which should be an INED.
- 3.4 Meetings could be held in person, by telephone or by video conference. Members may participate in a meeting by means of a telephone conference or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.
- 3.5 Resolutions of the Audit Committee at any meetings shall be passed by more than half of the Members present.
- 3.6 A resolution in writing signed by all the Members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.
- 3.7 Minutes shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes shall be circulated to all Members for their comment and records respectively, in both cases within a reasonable period of time after the meeting. Such minutes shall be open for Directors' inspection.

4. Attendance at Meetings

- 4.1 At least once a year, representative(s) of the Company's external auditor will meet the Audit Committee without any Executive Director being present, except by invitation of the Audit Committee.
- 4.2 At the invitation of the Audit Committee, the following persons may attend the meetings (i) the Head of the Internal Audit, or, if absent, the representative of the Internal Audit; (ii) the Group Chief Financial Officer (or a person occupying the same position); and (iii) other Board members.
- 4.3 Only the Members are entitled to vote at the Meetings

5. Annual General Meetings

- 5.1 The Chairman of the Audit Committee or in his/ her absence, another Member (who must be an INED) of the Committee shall attend the Annual General Meetings of the Company and make himself/ herself available to respond to any shareholder's questions on the Audit Committee's activities.

6. Responsibility, Powers and Discretion

The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting and internal control system. The Audit Committee shall have the following responsibilities, powers and discretion:

6.1 Relationship with the Company's External Auditors

- 6.1.1 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;
- 6.1.2 To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 6.1.3 To develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, 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;
- 6.1.4 To 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;

6.2 Review of financial information of the Company

- 6.2.1 To monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly reports (if applicable), and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and quarterly reports (if applicable) before submission to the Board, the Audit Committee should focus particularly on:
 - (a) any changes in accounting policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards;
 - (f) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- 6.2.2 In regard to 6.2.1 above,
 - (a) Members of the Audit Committee must liaise with the Company's Board and senior management;
 - (b) The Audit Committee must meet, at least twice a year, with the Company's external auditors;
 - (c) The Audit Committee shall 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 external auditors;

6.3 Oversight of the Company's financial reporting system and internal control procedures

- 6.3.1 To review the Company's financial controls, internal control and risk management systems;

- 6.3.2 To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system, including the resources of accounting and financial report function, employee qualification and experience and employee training courses and relevant budget;
 - 6.3.3 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;
 - 6.3.4 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;
 - 6.3.5 To review the Group's financial and accounting policies and practices;
 - 6.3.6 To review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
 - 6.3.7 To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
 - 6.3.8 To act as the key representative body for overseeing the Company's relation with the external auditor;
 - 6.3.9 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. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;
 - 6.3.10 To report to the Board on all matters set out in these Terms of Reference;
 - 6.3.11 To consider other topics, as defined by the Board; and
 - 6.3.12 To establish the whistle blowing policy and system which employees and business parties (like clients or suppliers) of the Company may, in confidence, raise concerning about possible improprieties of the Company to the Audit Committee.
- 6.4 Oversight of the Company's corporate governance program
- 6.4.1 To formulate and review the Company's corporate governance program and regulations and offer advice for the Board;
 - 6.4.2 To review and supervise the training and follow-up expertise development of the Company's board directors and senior management;
 - 6.4.3 To review and supervise the compliance with policies and regulations of laws and supervision;
 - 6.4.4 To establish, review and supervise the code of conduct and compliance manual (if any) of employees and board directors; and
 - 6.4.5 To review the compliance with Corporate Governance Rules and disclosure of Corporate Governance Report of annual report.

7. Reporting Responsibilities

7.1 The Audit Committee shall report to the Board after each meeting.

8. Authority

8.1 The Audit Committee is authorized by the Board to inspect all accounts, books and records of the Company.

8.2 The Audit Committee shall have the right to require the Company's management to furnish information on any matter relating to the financial position of the Company, its subsidiaries or affiliates, as may be required for the purposes of discharging its duties.

8.3 A Director as a Member of the Audit Committee may obtain external independent professional advice in appropriate circumstances at the Company's his/her duties as a Member to the Company.

8.4 The Audit Committee shall be provided with sufficient resources to discharge its duties.