



EcoGreen Fine Chemicals Group Limited

中怡精細化工集團有限公司 *

(incorporated in the Cayman Islands with limited liability)
(Stock code: 2341; Website: www.ecogreen.com)

**TERMS OF REFERENCE OF
THE AUDIT COMMITTEE**



EcoGreen Fine Chemicals Group Limited
中怡精細化工集團有限公司 *
(the "Company")

TERMS OF REFERENCE (THE "TERMS OF REFERENCE")
OF THE AUDIT COMMITTEE (THE "COMMITTEE")

1. Constitution

1.1 The Committee is established pursuant to a resolution passed by the board of directors (the "Board") at its meeting held on 16 February 2004. These Terms of Reference were revised and adopted by the Board pursuant to a written resolution passed by the Board dated 30 March 2012.

2. Membership

2.1 Members of the Committee shall be appointed by the Board from amongst the non-executive Directors of the Company and shall consist of not less than three members; and a majority of which should be independent non-executive Directors (the "INED(s)") of the Company and at least one INED with appropriate professional qualifications or accounting or related financial management expertise.

2.2 The Chairman of the Committee shall be appointed by the Board and shall be an INED.

2.3 The company secretary shall be the secretary of the Committee.

2.4 The appointment of the members or secretary of the Committee may be revoked, or additional members may be appointed to the Committee by separate resolutions passed by the Board and by the Committee.

3. Frequency and proceedings of meetings

3.1 **Frequency:** Meetings shall be held not less than twice a year. Additional meetings should be held as the work of the Committee demands. The external auditors may request the Chairman of the Committee to convene a meeting, if they consider that one is necessary.

3.2 **Notice:** Unless otherwise agreed by all the Committee members, a meeting shall be called by at least seven days' notice. (Regular meetings should be called by, so far as practicable, at least 14 days' notice; cf: paragraph A.1.3 of Appendix 14 to the Listing Rules.) A Committee member may and, on the request of a Committee member, the secretary to the Committee shall, at any time summon a Committee meeting. Notice shall be given to each Committee member in person orally or in writing or by telephone or by email or by facsimile transmission at the telephone or facsimile or address or email address from time to time notified to the secretary by such Committee member or in such other manner as the Committee members may from time to time determine. Any notice given orally shall be confirmed in writing as soon as practicable and before the meeting. Notice of

* For identification purpose only

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 of the Committee for the purposes of the meeting. In respect of regular meetings of the Committee to be held as mentioned in clause 3.4 below, and so far as practicable for all other meetings of the Committee, the agenda and accompanying papers shall be sent in full to all the members of the Committee in a timely manner and at least three days before the intended date of the meeting of the Committee (or such other period as all the Committee members may agree).

3.3 **Quorum:** The quorum of the Committee meeting shall be two members of the Committee and a majority of which shall be INDEs.

3.4 The Finance Director, the Head of Internal Audit (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors shall normally attend meetings. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditors and internal auditors, if any, without executive Board members present.

4. **Written resolutions**

4.1 Written resolutions may be passed by all Committee members in writing.

5. **Alternate Committee members**

5.1 A Committee member may not appoint any alternate.

6. **Authority of the Committee**

6.1 The Committee may exercise the following powers:

- (a) to seek any information it requires from any employee of the Company and its subsidiaries (together, the "**Group**") and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend Committee meetings and to supply information and address the questions raised by the Committee;
- (b) to report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board;
- (c) to investigate all suspected fraudulent acts involving the Group and request the management to make investigation and submit reports;
- (d) to request the Board to convene a shareholders' meeting for purposes of revoking the appointment of any Director and to dismiss any employees if there is evidence showing that the relevant Director and/or employee has failed to discharge his duties properly;
- (e) to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the auditors of the Group;
- (f) to review annually these Terms of Reference and their effectiveness in the discharge of its duties and to make recommendation to the Board any changes it considers necessary;

- (g) Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee will arrange for the Corporate Governance Report in the Annual Report to include an explanation of the Audit Committee's view and the reasons why the Board has taken a different view;
- (h) 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; and
- (i) to exercise such powers as the Committee may consider necessary and expedient so that their duties under section 7 below can be properly discharged.

7. Responsibility

- 7.1 The Committee is to serve as a focal point for communication between other Directors, the external auditors and the internal auditors (if any) as regards their duties relating to financial and other reporting, internal controls, external audits and internal audits (if any) and such other matters as the Board determines from time to time.
- 7.2 The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group, and as to the adequacy of the external audits and internal audits (if any).

8. Duties

- 8.1 The duties of the Committee shall be:

Relationship with the Company's auditors

- (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;
- (b) before audit commencement, to review with the external auditors the nature and scope of the audit and reporting obligations. The Committee should understand the factors considered by the external auditors in determining their audit scope and to ensure co-ordination where more than one audit firm is involved;
- (c) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- (d) 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 audit committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

- (e) to monitor integrity of the Group's and the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports (if any), and to review significant financial reporting judgments 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 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;
 - (vi) compliance with the Rules Governing The Listing of Securities (the "Listing Rules") and legal requirements in relation to financial reporting;
 - (vii) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group and whether such connected transactions, if any, have been carried out in accordance with the terms of the agreement governing such transactions;
 - (viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosures give a fair view of the Group's financial conditions; and
 - (ix) the cashflow position of the Group;
- (f) In regard to (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 Company'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 Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

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

- (g) to review with the Group's management, external auditors and internal auditors (if any), the adequacy of the Group's policies and procedures regarding internal controls (including financial, operational and compliance controls), risk management systems and any statement by the Directors to be included in the annual accounts prior to endorsement by the Board;
- (h) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. 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;
- (i) to consider major investigations findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

- (j) 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;
- (k) to review the Group's financial reporting principles and accounting policies and practices applied by the Group in the preparation of its financial statements;
- (l) to review the draft representation letter prior to approval by the Board;
- (m) to evaluate the cooperation received by the external auditors, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditors to the group's needs; inquire of the external auditors as to whether there have been any disagreements with management which if not satisfactorily resolved would result in the issue of a qualified report on the group's financial statements;
- (n) 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;
- (o) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (p) to recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (q) to review the findings of internal investigations and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations;
- (r) to report to the Board on the matters in this Terms of Reference; and
- (s) to consider other topics, as defined by the Board.

Others

- (t) to conduct exit interviews with any Director, manager, financial controller or internal credit control manager upon their resignation in order to ascertain the reasons for his departure;
- (u) to consider the appointment of any person to be a Committee member and auditors either to fill a casual vacancy or as an additional Committee member and auditors or dismissal of any of them;

9. Reporting procedures

- 9.1 Full minutes of the meetings of the Committee and all written resolutions of the Committee should be kept by the secretary of the Committee.
- 9.2 The secretary of the Committee shall circulate the draft and final versions of minutes of the meetings of the Committee or, as the case may be, written resolutions of the Committee to all members of the Committee for their comment and records respectively within a reasonable time after the meeting or before the passing of the written resolutions.

- 9.3 The secretary of the Committee shall keep record of all meetings of the Committee held during each financial year of the Company and records of individual attendance of members of the Committee, on a named basis, at meetings held during that financial year.
- 9.4 The Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report to the Board on the findings and recommendations of the Committee. At least annually, the Committee should present a report to the Board which addresses the work and findings of the Committee during the year.

10. Continuing application of the articles of association of the Company

- 10.1 The articles of association of the Company regulating the meeting and proceedings of the Directors so far as the same are applicable and are not replaced by the provisions in this Terms of Reference shall apply to the meetings and proceedings of the Committee.

11. Powers of the Board

- 11.1 The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including the Corporate Governance Code set out in Appendix 14 to the Listing Rules or if adopted by the Company, the Company's own code of corporate governance practices), amend, supplement and revoke this Terms of Reference and any resolution passed by the Committee provided that no amendments to and revocation of this 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.

12. Publication of the Terms of Reference of the Committee

- 12.1 The Committee should make available these Terms of Reference, explaining its role and the authority delegated to it by the Board by including them on the website of the Company and on the website of the Stock Exchange of Hong Kong Limited.

30 March 2012

- The End -