



常茂生物化學工程股份有限公司

Changmao Biochemical Engineering Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8208)

Terms of Reference of Audit Committee

(the "Committee")

Membership

1. The Committee members shall be non-executive directors appointed by the board of directors (the "Board") of Changmao Biochemical Engineering Company Limited (the "Company"). There shall be at least three Committee members, majority of them shall be independent non-executive directors. The quorum of a Committee meeting shall be half of the Committee members.
2. Chairman of the Committee shall be appointed by the Board and shall be an independent non-executive director.
3. The Company Secretary shall act as the Committee's Secretary.

Attendance of meeting

4. Financial Controller of the Company, head of internal audit department (if any) and representatives of the external auditor shall be invited to attend the Committee meetings. The Committee shall meet with the external auditors without the presence of the executive directors at least once a year.

Frequency of meetings

5. Number of meetings shall be at least twice annually. The external auditors can convene a meeting if necessary.
6. The Committee shall meet with the external auditors at least twice every year.

**For identification purpose only*

Authority

7. The Committee is authorised by the Board to investigate any activities within its terms of reference with sufficient resources provided by the Company. The Committee is authorised to obtain any necessary information from any employee and all the employees are instructed to cooperate with the Committee to meet its requirement.
8. The Committee is authorised by the Board to obtain external legal or other professional advisory where necessary and invite external professional or parties with relevant experience to attend its meetings.

Duties

9. Duties of the Committee are set out below:
 - (a) to make recommendation to the Board on appointment, reappointment and removal of external auditors, and to approve the remuneration and terms of engagement of the external auditors, 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; to discuss with the external auditors the nature and scope of the audit and reporting obligation 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 ;
 - (d) to monitor integrity of the Company's financial statements and the annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgements 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 judgemental 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM Listing

Rules”) and legal requirements in relation to financial reporting.

- (e) Regarding (d) 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;
- (f) to review the Company’s financial controls, internal control and risk management systems;
- (g) 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;
- (h) 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;
- (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 financial and accounting policies and practices of the Company together with its subsidiaries;
- (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 in the code provision under Appendix 15 of the GEM Listing Rules; and
- (n) to consider other topics, as defined by the Board.

Reporting procedures

10. The Committee shall report to the Board on a regular basis. The Committee Secretary shall circulate the minutes and report of the Committee to all the Board members.

March 2012