

Jilin Qifeng Chemical Fiber Co., Ltd.

Terms of Reference of the Audit Committee

1 Constitution

The Audit Committee (the “**Audit Committee**”) is established by the Board of Directors (the “**Board**”) of Jilin Qifeng Chemical Fiber Co., Ltd. (the “**Company**”) pursuant to a resolution passed at the First Meeting of the First Board held at 24th April 2005.

2 Membership

- 2.1 Members of the Audit Committee shall be appointed by the Board from the directors of the Company and shall consist of not less than three members and all of whom shall be non-executive directors and majority of whom shall be independent non-executive directors and one of whom shall be an independent non-executive director having suitable professional qualifications or suitable accounting or relevant professional financial management knowledge as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The quorum for meetings of the Audit Committee shall be two members, one of whom shall be an independent non-executive director having suitable professional qualifications or suitable accounting or relevant professional financial management knowledge as required by the Listing Rules.
- 2.2 The Chairman of the Audit Committee shall be an independent non-executive director and shall be appointed by the Board.
- 2.3 A former partner of the existing audit firm responsible for the audit of accounts of the Company is forbidden to act as a member of the Audit Committee within one year since the following date (subject to the later one):
- (a) the date when he ceases to be a partner of such audit firm; or
 - (b) the date when he ceases to have any financial interest in such audit firm.

2.4 The Board and the Audit Committee may, respectively by resolutions, revoke the appointment of any member of the Committee or appoint new members of the Committee.

2.5 The constitution of the Audit Committee shall be subject to the provisions of the Listing Rules as may be amended from time to time.

2.6 A member of the Audit Committee shall not appoint any alternate member.

3 Secretary of the Audit Committee

The Secretary of the Audit Committee shall be acted by one of the joint secretaries of the Company.

4 Attendance at Meetings

4.1 Financial Manager, Internal Audit Supervisor (or any officer undertaking relevant duties with different post) and External Audit Representative shall attend meetings of the Company. Qualified accountants and a representative of the external auditor shall also have the right to attend meetings of the Company in accordance with provisions of the Listing Rules, Article 3.24. The Audit Committee shall hold at least one meeting per year with the directors and officers and the representative of the external auditor of the Company, provided that the Committee shall hold at least one meeting per year with the representative of the external auditor of the Company without any executive directors of the Board.

5 Frequency of Meetings

5.1 Meetings of the Audit Committee shall be held at least twice a year. The external auditor may, as it may think necessary, require to hold a meeting to discuss budgets and to amend budgets and the semi-annual report prepared by the Board.

5.2 Written resolutions of the Audit Committee shall be passed by all members of the Audit Committee by signatures.

5.3 The Audit Committee shall be governed *mutatis mutandis* by the articles of association of the Company governing the holding and proceedings of the meetings of the Board.

6 Interest Declaration

Members of the Audit Committee shall make interest declarations before the holding of each meeting with respect to the matters to be considered thereat. If a member of the Committee or any of his related parties (as defined in the Listing Rules) is interested in any matter to be considered at the meeting, such member shall be absent and shall not vote.

7 Authorization

7.1 The Audit Committee shall have the following powers conferred by the Board:

- (a) to seek for the books and accounts and other information of the Company as required by the Audit Committee from any employee or professional adviser (including auditor) of the Company, its subsidiaries and Jilin Jimeng Acrylic Fiber Co., Ltd (i.e. a company deemed by the Company voluntarily to be its subsidiary) (collectively referred to as the “**Group**”), and to ask such persons to prepare and submit reports and attend meetings of the Audit Committee to provide information and answer questions of the Committee;
- (b) to supervise whether the management of the Group violates any policies specified by the Board or any governing laws, regulations and rules (including but not limited to the Listing Rules and other rules to be made by the Board or the Audit Committee of the Board from time to time) at the performance of their duties;
- (c) to investigate the suspected frauds in relation to the Group and to ask the management to make investigations and submit reports;
- (d) to review the risk management and internal control procedures and systems of the Group;
- (e) to review the performance of the employees of the accounting and internal audit departments of the Group;

- (f) to make recommendations to the Board on the improvement of the risk management and internal control procedures and systems of the Group;
- (g) to ask the Board to take all necessary actions (including holding an extraordinary general meeting) to remove and replace the auditor of the Group;
- (h) to obtain external legal advice or other independent professional advice and to engage external personnel with relevant experience and professional skills when it thinks necessary;
- (i) The Audit Committee shall be provided with efficient resources to perform its duties; and
- (j) The Secretary of the Company has been authorized by the Board to ask for any materials as required by the members of the Audit Committee at the performance of their duties.

8 Duties

Duties of the Audit Committee shall be as follows:

8.1 Relationship with the Auditor of the Company

- (a) to be mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor and handling any problems with respect to the resignation or dismissal of such auditor;

Note: according to the provisions of the Listing Rules, Article 13.51(4), public announcement of change of auditor shall be published specifying the matters which holders of the company securities shall pay attention to.

- (b) to monitor the independence and objectivity of the external auditor and the effectiveness of the audit process in accordance with applicable standards; and the Audit Committee should discuss with the external auditor about the nature and scope of the audit and the reporting obligations before the audit commences;

- (c) to develop and implement policies on the engagement of an external auditor to provide non-audit services. Under these provisions, an 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. And the Audit Committee should report and make recommendations to the Board with respect to any actions or matters required to be taken or improved.

8.2 Review of the Financial Information of the Company

- (a) to monitor the integrity of the Company's financial statements, annual report and accounts, semi-annual report and quarterly reports (if any) (including the Board report, Chairman report and management discussion and analysis) and to review significant financial reporting judgments contained therein. In reviewing relevant statements and reports before submission to the Board, the Audit Committee should focus particularly on:
 - (i) any change in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustment resulting from audit;
 - (iv) the going concern assumptions and any qualified opinion;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal regulations in relation to financial reporting;
- (b) with respect to the above item (a):
 - (i) to closely liaise with the Board, officers and the qualified accountants of the Company; the Audit Committee shall meet, at least twice a year, with the external auditor of the Company; and

- (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and should give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting, compliance officers or external auditor.

8.3 Oversight of the Financial Reporting, Risk Management and Internal Control Systems of the Company

- (a) to review the Company's financial controls, and unless expressly addressed by a separate board committee, or by the Board itself, to review the Company's internal control and risk management systems;
- (b) to discuss with the management about the risk management and internal control systems and to ensure that the management has performed its duties to establish effective systems, and the discussion should include the adequacy of resources, qualifications and experience of the staff of the Group's accounting and financial reporting function and their training programs and budgets of relevant departments;
- (c) to study any findings of major investigations of risk management and internal control matters and the management's response to the findings on its own initiative or as delegated by the Board;
- (d) where an internal audit function exists, to ensure coordination between the internal and external auditors and to ensure that the internal audit function is managed with adequate resources and has appropriate standing in the Company, and to review and monitor the effectiveness of the internal audit function;
- (e) to review the Group's financial and accounting policies and practices;
- (f) to review external auditor's management letter, any queries raised by the auditor to the management of the Company in respect of the accounting records, financial accounts or control system and the management's response;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- (h) to review any arrangements made for employees of the Company to quietly raise concerns about any possible misconduct of financial reporting, internal control or other aspect, and to ensure that such arrangements are in place for fair and independent investigation of these matters for appropriate follow up actions;
- (i) to act as the major representative between the Company and the external auditor and to be responsible for monitoring the relationship between the Company and the external auditor;
- (j) where the Board disagrees on the comments of the Audit Committee about the selection, appointment, resignation or removal of the external auditor, the Company shall state the recommendation declaration of the Audit Committee and the disagreement reasons of the Board in the Corporate Governance Report;
- (k) to report to the Board on the matters set out in this Terms of Reference; and
- (l) to study other problems as may be defined by the Board from time to time.

9 Measures Recommended

9.1 The above may be reached by the following measures to be adopted by the Audit Committee as it may think necessary and appropriate:

- (a) the Audit Committee may consider making the following procedures to review and monitor the independence of the external auditor:
 - (i) to consider all kinds of relationship (including non-audit services) between the Company and the external auditor;
 - (ii) to acquire materials from the external auditor each year to know the policies and procedures adopted by the external auditor to maintain its independence and implement relevant monitoring rules, including the regulations on the rotation of the audit partner and its employees; and

- (iii) to meet, at least once a year, with the external auditor without the management of the Company to discuss relevant audit fees, matters arising out of audit and other matters the external auditor would like to raise.
- (b) the Audit Committee may consider to reach an agreement with the Board on making a policy that the Company may employ employees or former employees of the external auditor and to monitor the implementation of such policy. And the Audit Committee shall consider whether relevant conditions would prejudice or seem to prejudice the accounting judgment or independence of the external auditor.
- (c) the Audit Committee shall ensure that the external auditor will not prejudice its independence or objectivity when providing non-audit services. In evaluating the independence or objectivity of the external auditor at the provision of non-audit services, the Audit Committee may consider:
 - (i) whether such auditor is a suitable auditor to provide such non-audit services to the Company with respect to its skills and experience;
 - (ii) whether there are any preventive measures to ensure that the audit independence and objectivity of the auditor will not be threatened by the non-audit services;
 - (iii) the nature and fees of such non-audit services and the respective and total service fees as for such auditor; and
 - (iv) the standards for determining remuneration of the audit staff.

10 Proceedings of Report

10.1 Minutes of the meetings of the Audit Committee shall be kept by the Secretary of the Committee and shall, upon reasonable notice by any director, be open to such director to check at any reasonable period of time. The Secretary of the Audit Committee shall circulate the draft and final versions of minutes of the meetings of the Committee to all members of the Committee for their comment and records respectively within a reasonable period of time after the meeting. The signed minutes of the meetings shall be submitted to the Board. The proceedings specified herein shall also govern the written resolutions of the Audit Committee below.

10.2 Written resolutions may be passed by all members of the Audit Committee in writing. This Article shall not affect the requirements of the Listing Rules on the meetings of the Board or the Audit Committee.

10.3 The Audit Committee shall report its resolutions or recommendations to the Board unless as restricted by the laws or regulations to do so (such as disclosure restricted by the regulations).

11 Annual General Meeting of the Company

The Chairman of the Audit Committee (or in the absence of the Chairman, another member of the Committee or his duly appointed representative) shall attend annual general meetings of the Company and answer questions.

12 Powers of the Board

The Board may, subject to the articles of association of the Company and the Listing Rules (including the Code on Corporate Governance and the Corporate Governance Report in its Appendix 14), amend, supplement or revoke these terms of reference and any resolutions passed by the Audit Committee, provided that such amendment or supplementation shall not invalidate any prior acts or resolutions made by the Audit Committee.

13 Disclosure of the Terms of Reference

The Audit Committee shall disclose its terms of reference to the public and explain its role and powers conferred by the Board.

14 Language

Any conflict between the Chinese and English versions of these terms of Reference shall be subject to the Chinese version.

Jilin Qifeng Chemical Fiber Co., Ltd.
Amended on 24 December 2015