

*Important Note: The following document is an English translation of its Chinese version . In case of any discrepancies or inconsistencies, the Chinese version shall always prevail.*

## **Rules of Procedures of the Audit Committee under the Board of Directors of China BlueChemical Ltd.**

### **1. GENERAL PROVISIONS**

- 1.1 To safeguard the legitimate rights and interests of shareholders of China BlueChemical Ltd. (hereinafter referred to as the “Company”) and regulate the proceedings of the audit committee under the board of directors of the Company (hereinafter referred to as the “Audit Committee”), these Rules of Procedures are formulated in accordance with the provisions and requirements of the Articles of Association of China BlueChemical Ltd., the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Listing Rules”) and other relevant laws, regulations and regulatory documents while taking into consideration the actual circumstances of the Company.
- 1.2 The Audit Committee is a special committee established under and accountable to the board of directors.
- 1.3 The Audit Committee is responsible for reviewing and overseeing the Company’s procedures on the preparation of financial reports and internal control, examining annual production and operation and budget proposals, and making recommendations to the board of directors.

### **2. MEMBERS AND ORGANIZATIONAL STRUCTURE**

- 2.1 The Audit Committee shall comprise at least three members, all of whom shall be non-executive directors and the majority of whom shall be independent non-executive directors. One member among the independent non-executive directors shall have suitable professional qualifications or relevant accounting or financial management experience as required by the Listing Rules.
- 2.2 Members shall be appointed or removed by the board of directors. The term of office of members is the same as their term of office as directors of the Company. However, the board of directors may make adjustment to their term of office as members prior to expiry as needed.
- 2.3 The Audit Committee shall have one chairman to be acted by an independent non-executive director from among members. The chairman shall be nominated by the chairman of the Company, subject to the consideration and approval by the board of directors.
- 2.4 Any former partner of the accounting firm currently responsible for the Company’s accounts (where he is a director of the Company) shall not act as member of the Audit Committee within one year from the following dates (whichever is later):
  - 1) the date when he ceases to be a partner of that company; or

2) the date when he no longer enjoys the financial interests of that company.

### **3. OPERATIONAL PROCEDURES**

- 3.1 Meetings of the Audit Committee shall include regular meetings and interim meetings. Regular meetings shall be convened at least twice a year whereas interim meetings may be convened upon proposal by more than one-half of the members or the chairman of the Audit Committee. The external auditors may propose to the chairman of the Audit Committee for the convening of interim meetings if deemed necessary. The Audit Committee shall hold meetings with the external auditors at least once a year, in the absence of executive directors of the board of directors, for discussion and communication in respect of the Company's internal financial audit.
- 3.2 Meetings shall be presided over by the chairman and the chairman, if unable to attend, may appoint another member who shall be an independent non-executive director to preside over the meeting.
- 3.3 Meetings shall be held by more than two-thirds of the members attending the meeting. Each member has one voting right. Resolutions adopted at the meeting shall be passed by more than one-half of all members. If members are unable to attend the meeting for some reason, they may appoint another member in writing to attend the meeting and exercise the voting right on their behalf.
- 3.4 The Audit Committee may invite directors, supervisors, senior management and other personnel of the Company to sit in on the meeting. If necessary, the Audit Committee may engage intermediaries to provide professional advice for its decision-making.
- 3.5 The Audit Committee shall maintain complete minutes and/or resolutions of the meeting where members attending the meeting shall sign on the minutes. Resolutions of the meeting shall be signed by the chairman of the Audit Committee and the minutes and/or resolutions of the meeting shall be reported to the board of directors.
- 3.6 Meetings may be convened in the form of communications over written resolutions. Written resolutions shall be delivered to all members by methods including email, facsimile, express mail and personal delivery. Members shall, upon voting on the resolutions, return the signed originals to the Company for filing. Where the majority of all members have given their signatures agreeing to the resolution, such resolution shall be considered to have passed by the Audit Committee.
- 3.7 The initial draft of the minutes shall be provided to all members within a reasonable period of time after the meeting for their comments. The revised minutes of the meeting shall become final upon signing by members and shall be provided to all members for their records.
- 3.8 The secretary to the Audit Committee (to be acted by the secretary to the board of directors where no person has been appointed for the task) shall distribute the final minutes and reports of the meeting to all members of the board of directors for their perusal.

- 3.9 The Audit Committee shall be provided with adequate resources to discharge its duties and powers.
- 3.10 The Audit Committee shall make disclosure of its terms of reference to explain its functions and responsibilities as well as other powers delegated by the board of directors.
- 3.11 Where the board of directors disagrees with the Audit Committee's views over the selection, appointment, resignation or removal of the Company's external auditors, the Audit Committee shall arrange for the Corporate Governance Report in the Company's annual report to include an explanation of its recommendations and the reasons why the board of directors has taken a different view.
- 3.12 The Audit Committee shall report to the board of directors on the adoption of any action or improvement that it considers necessary and make recommendations on the steps to be taken.

#### **4. RESPONSIBILITIES**

The terms of reference of the Audit Committee authorized by the board of directors shall include requirements provided in C.3.3 and C.3.7 of Section C.3 of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules (hereinafter referred to as the "Code on Corporate Governance Practices") (the actual terms of reference shall be governed by the Listing Rules and its requirements which are subject to revision from time to time). The main contents are set out as below:

- 4.1 The Audit Committee shall make recommendations to the board of directors on the appointment, re-appointment and removal of the external auditor, approve the remuneration and terms of engagement of the external auditor, and handle any questions of resignation or dismissal of the external auditor; and act as the key representative body for overseeing the relations of the Company with the external auditor.
- 4.2 The Audit Committee shall review and monitor the independence and objectivity of the external auditor and the effectiveness of the audit procedures in accordance with applicable standards, and discuss with auditors on the nature and scope of the audit and relevant reporting obligations before the audit commences.
- 4.3 The Audit Committee shall formulate and implement policy on the engagement of external auditors to provide non-audit services.
- 4.4 The Audit Committee shall examine annual production, operational and financial budget proposals and make recommendations to the board of directors.
- 4.5 Members of the Audit Committee shall liaise with the board of directors and senior management and hold meetings with the external auditors at least annually, and monitor the integrity of the Company's financial statements, annual report, accounts, half-year report and quarterly reports (if any) and review significant financial reporting judgments contained in them, with particular focus on the following items:

- (1) accounting policies and any changes in practices;
- (2) major judgmental areas;
- (3) significant adjustments resulting from audit;
- (4) the going concern assumptions and any qualifications;
- (5) compliance with accounting standards; and
- (6) compliance with the Listing Rules and legal requirements in relation to financial reporting.

The Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts referred to above, and to give due consideration to any matters that have been raised by the staff responsible for accounting and financial function, compliance officers or auditors of the Company.

- 4.6 The Audit Committee shall review and regulate the financial controls, financial reporting system, internal control procedures and risk management system of the Company.
- 4.7 The Audit Committee shall discuss the internal control system with management to ensure that management has discharged its duty to establish an effective internal control system. This discussion shall include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function; the effectiveness of the Company's internal control procedures, the acceptance of complaints or concerns raised by the staff in secret in respect of misconduct that may occur in terms of financial reporting, internal control and other functions and the Company's arrangements for staff complaints. At the same time, the Audit Committee shall ensure that appropriate arrangements are in place enabling the Company to conduct a fair and independent investigation of the staff's complaints and take proper actions. The Audit Committee shall, on its own initiative or upon the request of the board of directors, study results of investigation in relation to internal control issues and the feedback of management.
- 4.8 The Audit Committee shall oversee the appointment and removal of the person-in-charge of the Company's internal audit function and make relevant recommendations; coordinate the work between the internal and external auditors to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and examine and monitor the effectiveness of the Company's internal audit function.
- 4.9 The Audit Committee shall review the Group's financial and accounting policies and practices.
- 4.10 The Audit Committee shall review the management letter of the external auditor, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and the response of management, and ensure that the board of directors will provide a timely response to the issues raised in the management letter.
- 4.11 The Audit Committee shall report to the board of directors on matters provided in the Code on Corporate Governance Practices.

4.12 The Audit Committee shall deal with other important audit items.

## **5. DUTIES AND POWERS OF THE CHAIRMAN OF THE AUDIT COMMITTEE**

5.1 The chairman shall convene and preside over regular and interim meetings of the Audit Committee.

5.2 The chairman shall supervise and examine the implementation of resolutions adopted by the Audit Committee.

5.3 The chairman shall execute important documents of the Audit Committee.

5.4 The chairman shall report his work to the board of directors on a regular basis or in accordance with the arrangements of the board of directors.

5.5 The chairman shall perform other duties and powers delegated by the board of directors.

## **6. ANNUAL PERFORMANCE APPRAISAL REVIEW**

The Audit Committee shall draft and submit an annual performance appraisal report to the board of directors. The Audit Committee has the right to determine the approach of the annual performance appraisal report. The chairman of the Audit Committee or members designated by the Audit Committee may give an account of the report orally or in writing.

## **7. RESOURCES AND AUTHORITY**

The Audit Committee has the right to appoint independent consultants and legal advisers as needed in the implementation of relevant affairs in accordance with the provisions of these Rules of Procedures and other relevant laws, regulations and regulatory documents. The Company shall provide financial and funding assurance deemed appropriate by the Audit Committee for the payment of:

7.1 remuneration for the provision of audit services by accounting firms and in relation to audit, review and verification services; and

7.2 remuneration payable to consultants appointed by the Audit Committee.

## **8. RESTRICTIONS ON THE FUNCTIONS AND RESPONSIBILITIES OF THE AUDIT COMMITTEE**

The Audit Committee is not obliged to plan and implement any audit activities in performing the functions and responsibilities referred to above in these Rules of Procedures. The management of the Company shall be responsible for the preparations of the Company's financial reporting function whereas the accounting firm shall be responsible for the audit of the Company's financial reports.

**9. MISCELLANEOUS**

- 9.1 Unless otherwise defined, the expression of “at least” referred to in these Rules of Procedures shall include the figure mentioned.
- 9.2 These Rules of Procedures shall take effect from the date of approval by the board of directors and the same applies to any amendments made.
- 9.3 The interpretation of these Rules of Procedures shall be vested in the board of directors.

Second amendment as of 29.Mar.2012

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