

FIRST NATURAL FOODS HOLDINGS LIMITED

Terms of Reference

For an Audit Committee

Constitution

1. The Audit Committee (the “Committee”) is a committee of the Board of Directors of the Company (the “Board”).

Membership

2. 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, a majority of whom should be independent and at least one of whom is an Independent Non-Executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).
3. The Chairman of the Committee shall be appointed by the Board and should be an independent director.
4. A former partner of the Company’s existing auditing firm is prohibited from acting as a member of the Committee for a period of one year commencing on the date of his ceasing:
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm,whichever is the later.
5. The secretary of the Committee (the “Secretary”) shall be appointed by the Committee. The secretary is normally the Company Secretary of the Company.

Meetings

6. A quorum shall be two members.
7. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.
8. The qualified accountant (who is appointed under Rule 3.24 of the Listing Rules) (the “Qualified Accountant”), representative(s) of the external auditors and other Board members normally attend meetings.
9. in regard to item 12(d) below, the members of the Committee must liaise with the Board, the Company’s senior management and the Company’s Qualified Accountant and the Committee must meet, at least once a year, with the Company’s external auditors.

Authority

10. The Committee is authorised by the Board to investigate any activity within its terms of reference and provided with sufficient resources to discharge duties.
11. The Committee is authorised by the Board 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.

Duties

12. The duties of the Committee include:

Relationship with the External 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 of that auditor;
- (b) to review and monitor the external auditor’s independence and

objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences.

- (c) 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. The Committee should 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.

Review of Financial Information

- (d) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly 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; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting.

- (e) to 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 Qualified Accountant, compliance officer or the external auditors;

Oversight of the Company's Financial Reporting System and Internal Control Procedures

- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control systems;
- (h) 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;
- (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 the effectiveness of the internal audit function;
- (j) to review the group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the 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 set out in the provision of the Code of Corporate Governance under the Listing Rules; and
- (n) to consider other topics, as defined by the Board.

Reporting procedures

13. Full minutes of the meetings of the Committee should be kept by the Secretary. Draft and final versions of minutes of meetings of the Committee should be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after each meeting.

14. Where the board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.