

China National Materials Company Limited
Terms of Reference and Operation Mode of the Audit Committee

Committee Composition

1. The audit committee (the "**Committee**") of China National Materials Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") shall consist of not less than three directors (the "**Directors**") of the Company, all being non-executive Directors, a majority of which shall be independent non-executive Directors. At least one member of the Committee shall be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Main Board Listing Rules**"). Members of the Committee shall be nominated by the Chairman of the board of Directors (the "**Board**") and considered and passed by the Board. The Committee composition shall be in compliance with the Main Board Listing Rules.
2. A former partner of the Company's existing auditor may not act as a member of the Committee within 1 year commencing from the later of the following date:
 - (a) when he/she ceases to be a partner of the auditor; or
 - (b) when he/she ceases to have any financial interests in the auditor.
3. The Committee shall have one chairman who shall be an independent non-executive Director selected from its members.

The chairman of the Committee shall be nominated by the chairman of the Board and shall be considered and passed by the Board. When the chairman is unable or fails to perform his duties, he may designate another member (being an independent non-executive Director) of the Committee to perform the chairman's duties in his place.

4. The Committee shall have one secretary who shall be the head of the audit department.
5. The term of office of the Committee shall be in congruence with that of the same session of the Board. The term of office of members of the Committee shall be in congruence with that of Directors, renewable upon re-election at its expiry. If a member of the Committee no longer maintains the position as a Director during the term, he or she shall automatically lose the qualification as a member of the Committee.
6. A member of the Committee may request to the Board to resign before expiry of his/her term of office, in which case the resignation letter shall include necessary statements on the reason of resignation and any matters that need to be brought to the attention of the Board. When the number of the members of the Committee falls below the minimum quorum in these rules, the resigning Committee

members shall continue performing the relevant duties until the alternate Committee members take office.

7. Members of the Committee are subject to adjustments during their terms, if so proposed by the chairman of the Board and considered and passed by the Board.
8. In the event that the number of members of the Committee falls below the minimum quorum herein, the Board shall fill up the vacancy in accordance with these rules.

Meetings and Procedures

1. Meetings of the Committee shall be held at least twice a year. The external auditor or any member of the Committee may request to convene a meeting, if thought necessary. Upon reception of the request, the secretary of the Committee shall as soon as possible convene the meeting at the convenience of all members (with a priority to independent non-executive Directors) to the reasonable extent as far as practical.
2. The secretary of the Committee is responsible for the serving of the notice of meeting in writing as signed and issued by the chairman of the Committee, not later than 3 days before the meeting (except in extraordinary circumstances where the requirements of time and procedure of notice herein may be waived with the chairman's approval, who shall explain in this regard at the meeting), to all members and the non-voting participants that are invited, if any. The notice of meeting shall include the means, time, place, session and topics of the meeting, dispatching time of the notice and other relevant information.
3. Upon reception of the notice of meeting, members of the Committee shall give confirmation and provide relevant information (including but not limited to the availability of presence, schedule, etc.) in a timely and appropriate manner.
4. Members of the Committee should attend the meetings in person. Where a member fails to be present, he/she may appoint another member of the Committee by the power of attorney as duly signed to attend and express opinions at the meeting on his/her behalf. The power of attorney shall set out definite scope and term of authorization. A single member may not concurrently act as a proxy of two or more members.

The member attending the meeting as a proxy shall only exercise the rights within the power of attorney. A member failing to attend a meeting of the Committee either in person or by proxy nor submitting any opinions in writing prior to the meeting shall be deemed as a waiver of right.

A member unable to attend a meeting in person may exercise his/her right through submitting opinions in writing on the matters to be considered, in any event not later than the holding of meeting, to the secretary of the Committee.

5. A member of the Committee failing to attend a meeting of the Committee either in person or by proxy nor submitting any opinions in writing prior to the meeting for

two times in succession shall be deemed as incapable of performing the duties in the Committee, and is subject to replacement by the Board in accordance with these rules.

6. The quorum of the meetings of the Committee shall be two (both being independent non-executive Directors) or more of its members. The meetings of the Committee shall be chaired by its chairman who, if unable to attend the meeting, may appoint another member of the Committee to chair the meeting.
7. In considering the matters at a meeting, members of the Committee shall express opinions based on their own judgments and on a specific, independent and adequate basis. Any inconsistency of opinions shall be stated in the meeting minute to be submitted to the Board.
8. Meetings of the Committee shall be generally held in the form of on-site meeting. In extraordinary circumstances, a meeting may be held by telecommunication upon consent by the chairman of the Committee, provided that it is ensured that the members can express opinions on an adequate basis. For a meeting to be held by telecommunication, members of the Committee shall submit to the Board their opinions in writing on the matters to be considered within the period specified in the notice of meeting.
9. The chairman of the Board and the chief financial officer of the Company shall attend the meetings of the Committee as non-voting participants, together with, if necessary, representative(s) of the external auditor, and other persons with specific duties on the scope of review.

Other Directors, relevant senior management members and experts of the Company or external experts, scholars, intermediary institutions and relevant personnel may be invited by the Committee to attend its meeting as non-voting participants when necessary. The non-voting participants shall make explanation and clarification as requested by members of the Committee.
10. A member of the Committee who is interested in the matters to be considered by the Committee shall abstain from voting on such matters.
11. All members present at the meeting and the non-voting participants are obligated to keep confidential the matters considered at the meeting, and shall not disclose the relevant information without authorization.

Primary Duties

1. To take charge of making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and to deal with any questions of resignation or dismissal of that auditor;
2. To examine annual audit plan submitted by the external auditor and provide opinions;

3. To review and monitor the external auditor's independence and objectivity as well as the effectiveness of the audit process, for which the Committee shall:
 - (a) seek from the external auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including requirements regarding provision of non-audit services and alteration of audit partners and staff;
 - (b) review all non-audit services provided and relevant fees charged by the external auditor on an annual basis to ensure that its independence would not be affected by such services;
 - (c) review the policies relating to the hiring of the employees of the external auditor, monitor the application of such policies, and consider whether in the light of this there has been any impairment of the auditor's judgment or independence in respect of the audit;
4. To discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
5. 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), and to 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;
6. To monitor integrity of financial statements of the Company and its 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: any changes in accounting policies and practices; major judgmental areas; significant adjustments resulting from audit; the going concern assumptions and any qualifications; compliance with accounting standards; and compliance with the Main Board Listing Rules and other legal requirements in relation to financial reporting.

In regard to the aforesaid duties, members of the Committee must liaise with other Directors and senior management, and the Committee must meet, at least twice a year, with the Company's external auditor; and the Committee should 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 Company's staff responsible for the accounting and financial reporting functions or auditors;

7. To review the Company's financial controls, and to review the Company's risk management and internal control systems;
8. To discuss the risk management and internal control systems with management to ensure that the management has discharged its duty to establish an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget in respect of the Company's accounting and financial reporting function;
9. To consider any findings of major investigations of risk management and internal control matters and the management's response thereto as delegated by the Board or on its own initiative;
10. To ensure coordination 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;
11. To review the Group's financial and accounting policies and practices;
12. To review the external auditor's Letter regarding Audit Results to the management, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response;
13. To ensure that the Board will provide a timely response to the issues raised by the external auditors in their Letter regarding Audit Results to the management;
14. To act as the key representative body for overseeing the Company's relation with the external auditor;
15. To review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;
16. To report to the Board on above matters;
17. Other duties as requested by the Board.