

FIRST PACIFIC COMPANY LIMITED

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

1. Constitution and scope

The First Pacific Board hereby resolves to establish a Committee of the Board to be known as the Audit Committee. The establishment of this Committee is to provide a forum dedicated to the review of matters within the purview of audit, such as financial statements and internal control, and to protect the interest of the shareholders of the Company. The Audit Committee has been granted explicit authority to investigate any matters within its terms of reference and the support of the Company and the external auditors to carry out its duties. The scope of the Audit Committee's function will only extend to activities insofar as they fall within the duties of the Board of Directors of the Company.

2. Membership

The Committee shall be appointed by the Board from amongst the Non-executive Directors of the Company as follows:-

- Minimum of three members, at least one of whom should be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.
- Majority of the Audit Committee members must be independent non-executive directors of the Company who are independent from management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment as a Committee member.
- A former partner of the Company's existing auditing firm should be prohibited from being a member of the Audit Committee for a period of 1 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.
- The Chairman shall be appointed by the Board and shall be an independent non-executive director of the Company. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of the members to chair the meeting.
- Remuneration shall reflect the time, commitment and responsibility involved in serving on the Committee and is subject to the approval of the Board.
- Appointments to the Committee shall be for such initial period (subject to extension) as prescribed by the Board.
- Membership of the Committee shall cease if the member ceases to be a Non-executive Director of the Company.
- The external auditors will be invited to attend meetings of the Committee on a regular basis.
- The Company Secretary or his/her designee shall be the secretary of the Audit Committee.

3. Quorum

The quorum necessary for the transaction of business shall be two members, present in person or by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other. A majority vote of the members present shall represent the act of the Committee.

4. Frequency of Meetings

- The frequency of meetings, which shall be held in Hong Kong or in any other country as determined by the Committee, shall vary with the range and complexity of the issues which arise. As a minimum, the Committee shall meet at least twice a year, at appropriate times prior to the finalization of the interim and year end accounts.
- All Board members shall have the right to attend the meetings.
- The Senior Financial Officer and a representative of the auditors shall normally attend meetings. However, at least once a year, the Committee shall meet privately with the auditors without executive Board members present.
- The Committee may invite any person who has specific responsibility for, or interest or expertise in, the subject under review to attend a meeting of the Audit Committee.
- The external auditors shall have the right to convene a meeting.

5. Responsibilities

Primary responsibility shall be to assist the Board in fulfilling its duties concerning financial and management reporting and internal control.

- i. In respect of relationship with the Company's external auditor, the Committee shall
 - a. be primarily responsible for making recommendation to the board on the appointment, reappointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, to respond to any questions of resignation or dismissal of that auditor; and to publish an announcement when there is a change of auditor;
 - b. review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should also discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
 - c. 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 audit 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;
- ii. In respect of reviewing the financial information of the Company, the Committee shall
 - d. 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 Exchange Listing Rules and other legal requirements in relation to financial reporting.

e. In regard to (d) above:-

- (i) members of the committee must liaise with the Company's board of directors and senior management and the committee must meet, at least once 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 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 function, compliance officer or auditors.

iii. In respect of overseeing the Company's financial reporting system and internal control procedures, the Committee shall:

- (f) review the Company's financial controls, internal control and risk management systems;
- (g) discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;
- (h) 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, 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) review the group's financial and accounting policies and practices;
- (k) 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) ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) report to the board on the matters set out in the code provision, as contained in Appendix 14 of the Listing Rules; and
- (n) consider other topics, as defined by the board.

Notes:

- (1) The audit committee may consider establishing the following procedure to review and monitor the independence of external auditors:
 - (i) consider all relationships between the Company and the audit firm (including the provision of non-audit services);
 - (ii) seek from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding rotation of audit partners and staff; and
 - (iii) meet with the auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.
 - (2) The audit committee may also consider agreeing with the board the Company's policies relating to the hiring of employees or former employees of the external auditors and monitor the application of such policies. The audit committee should then be in a position to consider whether in the light of this there has been any impairment or appearance of impairment, of the auditor's judgment or independence in respect of the audit.
 - (3) The audit committee would normally be expected to ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the audit committee may consider:
 - (i) whether the skills and experience of the audit firm make it a suitable supplier of the non-audit services;
 - (ii) whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;
 - (iii) the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm; and
 - (iv) the criteria which govern the compensation of the individuals performing the audit.
- iv. In respect of overseeing the Company's financial reporting system and internal control, the Committee shall liaise with the auditors on any audit related issues, in particular:

- To assess the quality and service of the auditors and the reasonableness of fees charged;
 - To discuss with the external auditor the coordination, nature and scope of the audit before the audit commences;
 - To review the external auditor's report to the Board of Directors; and
 - To continually review the extent of non-audit related work undertaken by the auditors to ensure that an objective and professional relationship is maintained.
- v. In respect of other duties and responsibilities, the Board may delegate a wider range of company related issues, for example, social and ethical considerations, to the Committee. In addition, the Committee shall:
- (a) 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 audit committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action; and
 - (b) act as the key representative body for overseeing the Company's relation with the external auditor.

6. Reporting Procedures:

1. Full Minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of Minutes of audit committee meetings should be circulated to all members of the Board for their comment and records respectively, in both cases within one month after the meeting.
2. On a semi-annual basis, the Committee Chairman shall present a report to the Board addressing all areas of responsibility by outlining the work undertaken and the findings made.
3. The Chairman or an authorized representative of the Audit Committee shall be available to answer questions about the work of the Committee at the Annual General Meeting of shareholders.

Revised and approved by the Audit Committee on 24th March, 2009