



中國動向(集團)有限公司
China Dongxiang(Group) Co.,Ltd.

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China Dongxiang (Group) Co., Ltd. (the “**Company**”)

Audit Committee Terms of Reference Adopted by the Board on 12 September 2007

1 Constitution

The board of directors of the Company (the “**Board**”) hereby constitutes and establishes an audit committee (the “**Audit Committee**”) with authority, responsibility, and specific duties as described below.

2 Membership

2.1 The Audit Committee shall be appointed by the Board and shall consist of not less than three (3) members comprising non-executive directors. R3.21

2.2 The majority of the members of the Audit Committee shall be independent non-executive directors 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 of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

2.3 The members of the Audit Committee shall appoint its Chairman who must be an independent non-executive director. A quorum shall be two members.

2.4 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Company’s audit committee for a period of one (1) year commencing on the date of his ceasing App.14
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- 2.4.1 to be a partner of the firm; or
- 2.4.2 to have any financial interest in the firm,

whichever is the later.

3 Secretary

The Company Secretary of the Company (the “**Company Secretary**”) shall be the secretary of the Audit Committee.

4 Responsibility

- 4.1 The function of the Audit Committee is to assist the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company and its subsidiaries (the “**Group**”), overseeing the audit process and performing other duties and responsibilities as assigned by the Board.
- 4.2 The Audit Committee should serve as a focal point for communication between other directors, the external auditors, and the management as their duties relate to financial and other reporting, internal controls, and the audits.

5 Authority

The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate as requested by members of the Audit Committee. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice as necessary to assist the Audit Committee and shall be provided with sufficient resources to discharge its duties.

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6 Duties

The duties of the Audit Committee include:

- 6.1 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. 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 detailed explanation of the Audit Committee's view and the reasons for the Board to have taken such a different view;
- 6.2 to 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 shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 6.3 to develop and implement policy on the engagement of 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 and shall identify any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

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6.4 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 judgements 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 Audit Committee shall focus particularly on:

- 6.4.1 any changes in accounting policies and practices;
- 6.4.2 major judgmental areas;
- 6.4.3 significant adjustments resulting from audit;
- 6.4.4 the going concern assumption and any qualifications;
- 6.4.5 compliance with accounting standards;
- 6.4.6 compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting;
- 6.4.7 in regard to paragraph 6.4:-
 - (a) members of the Audit Committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and must meet, at least once a year, with the Company's auditors; and
 - (b) the Audit 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 qualified accountant, compliance officer or auditors.

- 6.5 to review the Company's financial controls, internal control and risk management systems;
- 6.6 to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- 6.7 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;
- 6.8 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;
- 6.9 to review the financial and accounting policies and practices of the Group;
- 6.10 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;
- 6.11 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.12 to report to the Board on the matters set out in the provisions of the Code on Corporate Governance Practices contained in appendix 14 of the Listing Rules (as amended from time to time);
- 6.13 to consider other topics, as defined by the Board from time to time;



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- 6.14 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 Audit Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action; and App.14C. 3.7(a)
- 6.15 to act as the key representative body for overseeing the Company's relation with the external auditor. App.14C. 3.7(b)

7 Frequency of meetings

- 7.1 The Audit Committee shall meet at least twice a year.
- 7.2 The external auditors may request a meeting if they consider that one is necessary.

8 Attendance

- 8.1 As necessary or desirable, the Chairman may request that members of management and representatives of the external auditors be present at meeting of the Audit Committee. Other Board members shall also have the right of attendance. However, at least once a year the Audit Committee shall meet with the external auditors without executive Board members present.
- 8.2 Meetings can be held by way of telephone conference.

9 Minutes

- 9.1 Minutes of the Audit Committee shall be kept by the Company Secretary and draft and final versions of minutes of the meetings shall be sent to all members of the Audit App.14 C.3.1

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Committee for their comment and records respectively in both cases within a reasonable time after the meeting.

9.2 The Company Secretary shall circulate the minutes of meeting of the Audit Committee to all members of the Board.

10 General

The Audit Committee should make available these terms of reference, explaining its role and the authority delegated to it by the Board.

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