

China Chengtong Development Group Limited
(incorporated in Hong Kong with limited liability)

<Audit Committee >

Terms of Reference

Membership

1. The members of the Audit Committee shall comprise not less than three members to be appointed by the Board. All members of the Audit Committee must be non-executive Directors, at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise and the majority of whom should be independent non-executive Directors.
2. The Board shall appoint the chairman of the Audit Committee who must be one of the independent non-executive Directors sitting on the Audit Committee.
3. A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of two years from the date of the person ceasing:
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm,whichever is later.

Frequency and procedure of meetings

4. Meetings of the Audit Committee shall be held at least twice a year. The external auditors may request a meeting if they consider that is necessary. The members of the Audit Committee may, from time to time, adopt the procedure governing the convening of committee meetings, the means and procedure for the passing of resolutions of the committee meetings.
5. The quorum for meetings of the Audit Committee shall be any two members provided that the independent non-executive Directors shall form the majority in the meeting.
6. Resolutions of any meetings of the Audit Committee shall be passed by a majority of votes of the members present.

7. A resolution in writing signed by all the members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.
8. The company secretary of the Company or his or her delegate or such other person appointed by the chairman of the Audit Committee shall be the secretary of the Audit Committee.
9. The head of Internal Audit Department shall report directly to the chairman of the Audit Committee. The Financial Controller shall also report directly to the chairman of the Audit Committee if necessary.
10. The secretary of the Audit Committee, in consultation with the chairman of the Audit Committee, should be responsible for drawing up the agenda of each Audit Committee meeting. The notice of meeting and the agenda shall be forwarded to each of the Audit Committee members and any other person required to attend at least 14 working days before the meeting date. The Financial Controller and the head of Internal Audit Department shall provide relevant materials to the secretary of the Audit Committee at least 3 working days before the meeting and ensure that all committee members shall be provided with sufficient information at least 3 working days before the meeting.
11. Full minutes of the Audit Committee meetings should be kept by the secretary of the Audit Committee. Draft and final versions of the minutes of meetings and related reports (if any) should be circulated to all members of the Audit Committee for their comment and records within a reasonable period of time after each meeting.
12. The chairman of the Audit Committee shall report to the Board on the decisions reached by the Audit Committee.

Attendance at meetings

13. In addition to the members of the Audit Committee, the Financial Controller of the Company, the head of Internal Audit Department of the Company and the representative(s) of the external auditors shall normally attend the meetings of the Audit Committee.
14. The Audit Committee may, from time to time, invite any Board member or senior management or any other person to attend any of its meetings so as to ensure that the Audit Committee duly performs its duties and obligations.

Authority

15. The Audit Committee is authorized by the Board to:
 - a. investigate any activity in accordance with its terms of reference. It is authorized to obtain any information it requires from any employees of the Company;
 - b. communicate with the external auditors, Internal Audit Department, management and employees of the Company without any restrictions; and
 - c. seek advice from professional(s) at the Company's expenses, and if necessary, may invite those professional(s) to attend meeting(s) of the Audit Committee.
16. The Audit Committee should be provided with sufficient resources to perform its duties.

Duties

17. The duties of the Audit Committee are as follows:

Part A : Relationship and communication with the Company's external auditors

- 1) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors;
- 2) to approve the remuneration and terms of engagement of the external auditors;
- 3) to be responsible for matters relating to the resignation or dismissal of the external auditors, including reviewing and approving the announcement in relation to the change of external auditors to be published on the respective websites of the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**");
- 4) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- 5) to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;

- 6) to review the recent or anticipated developments in accounting principles or financial reporting practices that may affect the scope of the audit before the audit commences; to discuss identified audit risk areas and anticipated audit problems; and to suggest to the external auditors the performance of any supplementary audit or other agreed-upon procedures that the Audit Committee deems appropriate;
- 7) to meet with the external auditor at least once every year (and whenever the external auditors or the Audit Committee consider necessary), in the absence of management, to discuss matters relating to the audit fees, any issues arising from the audit and any other matters the external auditors or the Audit Committee may wish to raise in respect of the accounting, financial reporting and internal control issues;
- 8) to review any material queries or issues raised by the external auditors to the Company's management about the accounting records, financial accounts or systems of control, and the management's response to such queries or issues;
- 9) to review the management letter from external auditors and to ensure the Board provides a timely response to the issues raised in the letter;
- 10) to develop and implement policies on engaging external auditors to provide non-audit services to the Company, and to ensure that the external auditors do not perform any services that impair or appear to impair the external auditors' judgment or independence in respect of the Company; and
- 11) to act as the key representative body of the Company for overseeing the relationship between the Company and the external auditors, including the relationships involving the provision of non-audit services.

Part B : Review of the Company's financial information

- 1) to review and monitor the integrity, completeness, accuracy and fairness of the Company's annual reports and accounts, financial statements, interim reports and, if prepared for publication, quarterly reports and to review significant financial reporting judgments contained therein. In reviewing these reports and accounts before submission to the Board, the Audit Committee shall focus particularly on the following matters:
 - i. any changes in accounting policies and practices;
 - ii. major judgmental areas;

- iii. the extent to which the financial statements are affected by any unusual transactions, and how they are disclosed;
 - iv. significant adjustments resulting from the audit;
 - v. the going concern assumptions and any qualified opinion as set out in the auditor's report;
 - vi. the clarity of disclosures in the financial reports and statements;
 - vii. compliance with accounting standards; and
 - viii. compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and legal requirements in relation to financial reporting;
- 2) Regarding paragraph 17 Part B1) above:
- i. members of the Audit Committee should liaise with the Board and senior management;
 - ii. the Audit Committee must meet with the external auditors at least twice a year; and
 - iii. the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the Company's report and accounts, it should 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.

Part C : Oversight of the Company's financial reporting system, risk management and internal control systems

- 1) to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
- 2) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- 3) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 4) to review the Group's financial and accounting policies and practices;

- 5) to review any material queries raised by the external auditors to the management about accounting records, financial accounts or systems of control and management's response;
- 6) to review all representation letters signed by the Company's management for the external auditors or other parties, so as to ensure that the information provided is complete and appropriate;
- 7) where an internal audit function exists, to:
 - i. review the Internal Audit Department's mission and terms of reference;
 - ii. ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
 - iii. discuss the scope of the internal audit function with the internal auditor, including the internal audit plans, work programs and quality control;
 - iv. review and monitor the effectiveness of the internal audit function on a regular basis;
 - v. consider management's response to internal audit recommendations; and
 - vi. ensure that co-ordination between the Internal Audit Department and external auditors is adequate;
- 8) to review, approve and monitor procedures of the following matters, and to ensure the fair and independent investigation and appropriate follow-up of such matters:
 - i. the receipt, retention and treatment of complaints received by the Company regarding accounting, financial reporting, internal control, auditing or other matters; and
 - ii. the arrangements which the employees of the Company can use, in confidence, to raise concerns regarding possible improprieties in accounting, financial reporting, internal control, auditing or other matters.

Part D : Others

- 1) to ensure that member(s) of the Audit Committee, preferably the chairman of the Audit Committee, attends the Board meetings at which financial reports and financial statements are to be approved;

- 2) to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- 3) the chairman of the Audit Committee shall attend the Company's annual general meeting to answer any questions relating to the activities and responsibilities of the Audit Committee;
- 4) to report to the Board on the matters relating to these terms of reference; and
- 5) to consider other projects and topics, as requested by the Board.