

China Chengtong Development Group Limited

(incorporated in Hong Kong with liability)

<Audit Committee >

Terms of Reference

Constitution

1. The Audit Committee was established pursuant to a resolution passed by the board of directors (the “**Board**”) of China Chengtong Development Group Limited (the “**Company**”). The Board had on 29 March 2005, 24 March 2006, 27 February 2009 and 29 March 2012 amended the terms of reference of the Audit Committee respectively.

Membership

2. 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 of the Company, 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.
3. The Board shall appoint the chairman of the Audit Committee who should be one of the independent non-executive directors sitting on the Audit Committee. In his absence, the remaining members present shall elect one of them to chair the meeting.

Frequency and procedure of meeting

4. Meetings 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 passing the resolutions at committee meetings.
5. The quorum for meetings of the Audit Committee shall be of such a number that the independent non-executive directors shall form the majority in the meeting
6. Resolutions of the Audit Committee at any meetings shall be passed by a majority of votes of the members present.
7. Audit Committee may pass resolutions by way of written resolutions, but such must be passed by all Audit Committee members in writing.

Attendance at meeting

8. In addition to the members of Audit Committee, the Financial Controller, the head of Internal Audit Department of the Company and the representative(s) of the external auditors shall normally attend the meetings.

9. The Audit Committee may, from time to time, invite any Board member or senior management or any other person to attend any of its meeting so as to ensure that the Audit Committee to better perform its duties and obligations.
10. The Company Secretary or his or her delegate or such other person appointed by the chairman shall be the Secretary of the Audit Committee.

Authority

11. 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 professionals at the Company's expenses, and if necessary, may invite those professional(s) to attend the meeting.

Duties

12. The duties of the Audit Committee are as follow:

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

- 1) 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) responsible for the matters relating to the resignation or dismissal of the external auditors, and to review and approve the announcement to be published in relation to the change of external auditors;
- 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 reporting practices that may affect the scope of the audit before 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 deemed by the Audit Committee to be appropriate;
- 7) to meet with the external auditor at least once every year (and on the basis whenever the external auditors or the Audit Committee consider it 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 an external auditors to provide the non-audit services to the Company, and to ensure that the external auditors does not perform any services that impair or appear to impair the external auditors’ judgment or independence in respect of the Company; and
- 11) the Audit Committee is to act as the key representative body of the Company and responsible to oversee the relationship between the Company and the external auditors, include 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 auditor’s report qualifications;
 - 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 of Hong Kong Limited(“ Listing Rules”) and legal requirements in relation to financial reporting;
- 2) Regarding 1) above :
 - i. members of the committee should liaise with the Board and senior management;
 - ii. the committee must meet with the auditor at least twice a year; and
 - iii. the 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 and internal control procedures

- 1) to review the systems of financial control, internal control and risk management, and management of the Company and internal audit reports on their effectiveness;
- 2) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. 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 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 all representation letters signed by the Company's management for the external auditors or other parties, to ensure that the information provided is complete and appropriate;
- 6) 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 programmes 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;
- 7) to approve and monitor procedures enabling the following, and ensuring 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 confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting, financial reporting, internal control, auditing or other matters.

Part D : General

- 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 approved;
- 2) to ensure that the Audit Committee's terms of reference are made available to shareholders and other interested parties, through being posted on the Company's website and/or appropriate website and being made available on request from the Company Secretary;
- 3) to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- 4) 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;
- 5) to consider other projects and topics, as requested by the Board.

Other procedures

13. 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.

14. 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 of the Audit Committee meeting. The notice of meeting and the agenda shall be forwarded to each of the members of the audit committee 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 Audit Committee at least three (3) working days before the meeting and ensure that all committee members shall have sufficient information at least three (3) working days before the meeting.
15. The secretary of the Audit Committee shall circulate the draft and final versions of the minutes of meeting and report to all members for their comment and records within a reasonable period of time after each meeting.
16. The chairman of the Audit Committee shall report to the Board decisions reached by the committee.