



**Yuanda China Holdings Limited**  
**遠大中國控股有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 2789)**

**TERMS OF REFERENCE OF AUDIT COMMITTEE**

**Constitution**

The audit committee (the “Committee”) of Yuanda China Holdings Limited (the “Company”) is established pursuant to a resolution passed by the board (the “Board”) of directors (the “Director”) at its meeting held on 12 April, 2011.

**Membership**

1. The Committee shall consist of at least three Directors, all of whom shall be non-executive Directors with majority of independent non-executive Directors appointed by the Board from time to time. At least one member of the Committee must have appropriate professional qualifications or accounting or related financial management expertise.
2. The chairman of the Committee (“the Committee Chairman”) shall be appointed by the Board of the Company and should be an independent non-executive Director.
3. The Committee may invite any Director(s), executive(s), external auditor(s) or other person(s) to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective(s).

**Meetings and Quorum**

1. The Committee shall meet with such frequency and at such times as it may determine, but in any event not less than two times a year with its external auditor. The Committee Chairman may convene additional meetings at his discretion.
2. The quorum for meetings shall be two members of the Committee, one of whom should be the Committee Chairman, unless he is unable to attend due to exceptional circumstances.
3. Full minutes of the Committee meetings should be kept by a duly appointed secretary of the meetings. Draft and final versions of minutes of the Committee meetings should be sent to all members of the Committee for their comment and records within a reasonable time after the meeting.

### **Role and Authority of the Committee**

1. The Committee is authorised by the Board to investigate any activity within its terms of reference; and to seek any information it requires from any employee(s), whereas all employees are directed to co-operate with any request made by the Committee.
2. The Committee should be provided with sufficient resources to perform its duties and is authorised to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
3. In order to fulfill its duties, the Committee is eligible to request the management of the Company to provide any figures related to the financial status of the Company, its subsidiaries and associates.

### **Functions of the Committee**

1. To be primarily responsible for making recommendations 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 its resignation or dismissal, particularly under the circumstances below:
  - (a) Change of auditor  
To delegate the company secretary to draft an announcement, confirming the reason(s) for the change with a statement as to whether there are any other matters that need to be brought to Shareholders' attention upon receipt of auditors' confirmation for the Board's approval for publication; or
  - (b) Removal of auditor prior to expiration of his term of office  
To delegate the company secretary to draft and dispatch a circular to Shareholders containing any written representation from the auditor, whose written and/or verbal representation is also allowed to be made at the general meeting for its removal, for Shareholders' approval at a general meeting;  
  
Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view;
2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

3. To develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, “external auditor” includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally.
4. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
5. To monitor integrity of the Company’s financial statements and 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 reviewing these reports before submission to the Board, the Committee should focus particularly on:
  - a. Any changes in accounting policies and practices;
  - b. Major judgemental areas;
  - c. Significant adjustments resulting from audit;
  - d. The going concern assumptions and any qualifications;
  - e. Compliance with accounting standards; and
  - f. Compliance with the Rules Governing and Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and legal requirements in relation to financial reporting;
6. Regarding (5) above:–
  - a. The Committee members should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company’s auditors; and
  - b. The Committee should consider any significant or unusual items that are, or may need to be, reflected in the 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;
7. To review the Company’s financial control, internal control and risk management systems;
8. 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 functions;
9. 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;

10. 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 its effectiveness;
11. To review the Group's financial and accounting policies and practices;
12. To review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
13. To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
14. To report to the Board on the matters in these terms of reference;
15. To review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters; the Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and act as the key representative body for overseeing the Company's relations with the external auditor;
16. To consider other topics, as defined by the Board, from time to time (e.g. consider establishing a "whistleblowing" policy for employees and those who deal with the Company, such as customers and suppliers, to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company.);
17. To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
18. To review and monitor the training and continuous professional development of Directors and senior management of the Company;
19. To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
20. To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and
21. Review the Company's compliance with the code and disclosure in the Corporate Governance Report of the Company.