



CHINA MANDARIN HOLDINGS LIMITED

中國東方實業集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00009)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE (THE “COMMITTEE”)

Adoption Date: 21 August 2001

Revision Date: 20 March 2012

1. Membership

- 1.1 The Committee shall consist of at least three directors of China Mandarin Holdings Limited (the “Company”) appointed by the board of directors (the “Board”) of the Company from time to time. The majority of the members of the Committee should be independent non-executive directors.
- 1.2 The Board shall appoint one of the members who shall be an independent non-executive director as the chairman of the Committee (the “Chairman”).
- 1.3 The company secretary of the Company shall act as the secretary of the Committee (the “Secretary”).

2. Frequency and proceedings of meetings

- 2.1 The Committee shall meet at least twice every year. Additional meetings shall be held as the work of the Committee demands.
- 2.2 The Chairman of the Committee may convene additional meetings at his discretion.
- 2.3 The quorum of a meeting shall be two members of the Committee and one of them must be an independent non-executive director. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 2.4 The Committee may, from time to time, invite advisors to the meeting, including but not limited to external advisors or consultants, to advise its members.

* *For identification purpose only*

- 2.5 The Committee may request that members of management and representatives of the external auditors be present at meetings of the Committee. At least twice a year the Committee shall meet with the external auditors without executive Board members present, unless by invitation of the Committee or the Chairman.
- 2.6 Meetings of the Committee shall be summoned by the Secretary at the request of any member thereof.
- 2.7 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, at least three working days prior to the date of the meeting.
- 2.8 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance. Draft and final versions of minutes of the meetings should be sent to all members of the Committee for their comment and records within a reasonable time after the meetings.
- 2.9 Minutes of Committee meetings shall be circulated to all members of the Committee and to all members of the Board.

3. Authority

- 3.1 The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- 3.2 The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
- 3.3 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Committee will arrange for the Corporate Governance Report in the Annual Report to include an explanation of the Committee's view and the reasons why the Board has taken a different view.
- 3.4 The Committee is to be provided with sufficient resources to perform its duties.

4. Responsibility

- 4.1 The Committee is to serve as a focal point for communication between other directors, the management of the Company and the external auditor as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.
- 4.2 The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (the “Group”), and as to the adequacy of the external and internal audits.

5. Duties, powers and functions

The Committee is:

Relationship with the Company’s auditor

- (a) 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;
- (b) 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 external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) 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. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) to act as the key representative body for overseeing the Company’s relations with the external auditor;

Review of the Company’s financial information

- (e) 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 judgments contained in them. In reviewing these 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 audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;
- (f) Regarding (e) above:–
- (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice 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 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;

Oversight of the Company's financial reporting system and internal control procedures

- (g) to review the Company's controls, internal control and risk management systems;
- (h) 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;
- (i) 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;
- (j) 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;
- (k) to review the Group's financial and accounting policies and practices;

- (l) 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;
- (m) discuss with the external auditor any recommendations arising from the audit and any other matters the external auditor may wish to discuss (if necessary in the absence of the management);
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) 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;
- (p) to report to the Board on above matters; and
- (q) to consider other topics, as defined by the Board.