



CHANGGANG DUNXIN ENTERPRISE COMPANY LIMITED

長港敦信實業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2229)

Terms of Reference of the Audit Committee Approved and adopted on 15 May 2013

1. Establishment

- 1.1 The Audit Committee was established pursuant to a resolution passed by the Board at its meeting held on 15 May 2013.
- 1.2 The terms of reference of the Audit Committee are based on the terms of reference contained in the Code.

2. Membership

- 2.1 Members of the Audit Committee shall be appointed by the Board from amongst the non-executive Directors and shall consist of not less than three members and a majority of which should be independent non-executive Directors.
- 2.2 The Chairman of the Audit Committee shall be appointed by the Board and shall be an independent non-executive Director.
- 2.3 At least one of the members of the Audit Committee should possess appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules.
- 2.4 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 1 year from the date of his ceasing:
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm,whichever is later.
- 2.5 The Company Secretary shall be the secretary of the Audit Committee. The Audit Committee may, from time to time, appoint any other person with the appropriate qualifications and relevant experience as secretary of the Audit Committee.

3. Proceedings of the Audit Committee

3.1 Notice:

- (a) Unless otherwise agreed by all the members of the Audit Committee, a meeting shall be called by at least seven days' notice.
- (b) A member of the Audit Committee may and, on the request of another member of the Audit Committee, the secretary to the Audit Committee shall, at any time summon an Audit Committee meeting. Notice shall be given to each member of the Audit Committee in person orally by telephone or in writing sent by post or by email or by facsimile transmission at the telephone or facsimile number or address or email address from time to time notified to the secretary by such member of the Audit Committee or in such other manner as the members of the Audit Committee may from time to time determine.
- (c) Any notice given orally shall be confirmed in writing as soon as practicable and before the meeting.
- (d) Notice of meeting shall state the time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the members of the Audit Committee for the purposes of the meeting.

3.2 Quorum: The quorum of the meeting of the Audit Committee shall be two members of the Audit Committee and a majority of which shall be the independent non-executive Directors.

3.3 Meetings of the Audit Committee shall be held at least twice every year with the external auditor of the Company and should correspond with the Company's financial reporting cycle. Additional meetings should be held whenever necessary and as the work of the Audit Committee requires.

3.4 Only members of the Audit Committee have the right to attend meetings of the Audit Committee. The Audit Committee however may, as it deems necessary, invite such other persons such as the management of the Company and external advisers to its meetings.

3.5 The Audit Committee shall be accessible to the external auditor without management of the Company present should the auditor and/or the Audit Committee members consider it necessary.

4. Written Resolutions

4.1 Written resolutions may be passed by all the members of the Audit Committee in writing.

5. Overriding Principle

5.1 Members of the Audit Committee should assist the Board in establishing formal and transparent arrangements to consider how it will apply financial reporting and internal control principles and maintain an appropriate relationship with the Company's external auditors.

6. Alternate Audit Committee Member

6.1 A member of the Audit Committee may not appoint any alternate.

7. Authority of the Audit Committee

7.1 The Audit Committee is authorised by the Board to investigate any activity within these terms of reference. It is authorised to seek any information it requires from any employee and all employees of the Group are directed to co-operate with any request made by the Audit Committee.

7.2 The Audit Committee is authorised by the Board to obtain outside independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if the Audit Committee considers this necessary. The Audit Committee shall be provided with sufficient resources to discharge its duties. The Audit Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any external party who advises the Audit Committee.

8. Duties

8.1 The Audit Committee shall:

Relationship with the auditors of the Company

- (a) 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) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (c) discuss with the auditor as to the nature and scope of the audit and review and reporting obligations before the audit and review commences, and ensuring co-ordination where more than one audit firm is involved;
- (d) 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) and report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

- (e) discussing problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss (in the absence of senior management of the Company where necessary);

Review of the Company's financial information

- (f) monitor integrity of the Company's financial statements and annual report and accounts, interim report and quarterly reports (if any), and review significant financial reporting judgments contained in them before submission to the Board, with particular focus on the following matters:

- (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 Listing Rules and legal requirements in relation to financial reporting.

- (g) in regard to paragraph 8.1(f) above, members of the Audit Committee should:

- (i) liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors;

- (ii) consider any significant or unusual items that are, or may need to be, reflected in the report and accounts; and

- (iii) 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 (including connected transaction(s))

- (h) review the Company's financial controls, internal control and risk management systems (including the fairness and reasonableness of any connected transaction to ensure such transaction is: (AA) in the ordinary and usual course of business of the Company; (BB)

either on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; (CC) in accordance with the relevant agreement governing it, in particular, whether the maximum aggregate annual value is exceeded (where applicable) and on terms that are fair and reasonable and in the interests of the shareholders as a whole; and (DD) in compliance with the Listing Rules and legal requirements, at least once every quarter);

- (i) discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system, including for compliance of relevant rules and regulations of regulators in Hong Kong and the PRC from time to time. 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;
- (j) consider major investigation findings on internal control matters as delegated by the Board or on the Audit Committee's own initiative and management's response to these findings;
- (k) review the financial and accounting policies and practices adopted by the Group;
- (l) 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) ensure the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) (where an internal audit function exists) ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor its effectiveness;
- (o) report to the Board on the matters in this paragraph 8.1 and follow up with the Board with respect to its response to such matters, in particular, any non-compliances;
- (p) consider other topics, as defined by the Board;
- (q) 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 Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (r) act as the key representative body for overseeing the Company's relations with the external auditor.

9. Minutes and Records

- 9.1 Full minutes of the meetings of the Audit Committee and all written resolutions of the Audit Committee should be kept by the secretary of the Audit Committee.
- 9.2 Minutes of the meetings of the Audit Committee should record in sufficient detail the matters considered by the Audit Committee and decisions reached, including any concerns raised by any Director or member of the Audit Committee or dissenting views expressed.
- 9.3 The secretary of the Audit Committee shall circulate the draft and final versions of minutes of the meeting of the Audit Committee or, as the case may be, written resolutions of the Audit Committee to all members of the Audit Committee for their comment and records respectively within a reasonable time after the meeting or before the passing of the written resolutions.
- 9.4 The secretary of the Audit Committee shall keep records of all meetings of the Audit Committee held during each financial year of the Company and records of individual attendance of members of the Audit Committee, on a named basis, at meetings held during that financial year.

10. Annual General Meeting of the Company

- 10.1 The Chairman of the Audit Committee or, in his/her absence, another member (who must be an independent non-executive Director) of the Audit Committee shall attend the Company's annual general meeting and be prepared to respond to shareholders' questions on the Audit Committee's activities and their responsibilities.

11. Continuing Application of the Articles of Association of the Company

- 11.1 The articles of association of the Company regulating the meetings and proceedings of the Directors so far as the same are applicable and not inconsistent with the provisions of these terms of reference shall apply, mutatis mutandis, to regulate the meetings and proceedings of the Audit Committee.

12. Reporting Procedures

- 12.1 The Audit Committee shall report to the Board on its decisions and recommendations.

13. Definitions

- 13.1 In these terms of reference, the following words or expressions shall have the following meanings unless the context requires otherwise:

“Audit Committee”	the audit committee established by resolution of the Board in accordance with paragraph 1.1 of these terms of reference;
“Board”	the board of Directors;

“Code”	Corporate Governance Code set out in Appendix 14 of the Listing Rules;
“Company”	Changgang Dunxin Enterprise Company Limited;
“Company Secretary”	the company secretary of the Company for the time being and from time to time;
“Director”	director of the Company for the time being and from time to time, and “Directors” shall be construed accordingly;
“Group”	the Company and its subsidiaries for the time being and from time to time; and
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time).