



ZHONG FA ZHAN HOLDINGS LIMITED

中發展控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 475)

Terms of Reference of the Audit Committee

(Approved and adopted on 24 October 2006

Last revised on 21 June 2013)

1. Constitution

- 1.1 The Board resolved to establish a Committee of the Board known as the Audit Committee on 24 October 2006.

2. Membership

- 2.1 The Audit Committee shall be appointed by the Board from amongst the non-executive Directors of the Company only and should comprise a minimum of three members, at least one of whom is an independent non-executive Director with such qualifications or expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The majority of committee members should be independent non-executive Directors of the Company.
- 2.2 The chairman of the Audit Committee shall be appointed by the Board and should be an independent non-executive Director.
- 2.3 A former partner of the Company's existing auditing firm shall not act as a member of the Audit Committee until one year after the commencement of the later of the date of his ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm.

3. Chairman

- 3.1 The Board shall appoint the chairman of the Audit Committee who must be an independent non-executive Director and has the responsibility of liaising with the Board.
- 3.2 The chairman shall chair the meetings of the Audit Committee.
- 3.3 In the absence of the chairman of the Audit Committee, the remaining members present shall elect one of themselves to chair the meetings of the Audit Committee.

4. Quorum and voting of meetings

- 4.1 The quorum of Audit Committee meetings shall be two members. If only two members are in attendance, then both members shall be independent non-executive Directors. If more than two members are in attendance, then a majority of the members shall be independent non-executive Directors.
- 4.2 Questions arising in any meetings shall be decided by a simple majority of votes.

5. Attendance at meetings

- 5.1 The Audit Committee members may attend meetings of the Audit Committee either in person or through other electronic means of communication (if made available by the Company). Should any member of the Audit Committee wish to attend a meeting through electronic communications, prior arrangements shall be made with the secretary of the Audit Committee.
- 5.2 The representative of the external auditors shall normally be invited at least once a year who will have an opportunity to speak to the Audit Committee without the Chairman and Financial Controller in attendance if so required by the Audit Committee members.
- 5.3 The Company Secretary shall be the secretary of the Audit Committee.

6. Frequency of meetings

- 6.1 Meeting shall be held not less than two times a year. Any Audit Committee member may convene a meeting of the Audit Committee and invite any representative of the external auditors to attend the same in the absence of any executive Director or any member of the management of the Company. The external auditors may make request to the chairman of the Audit Committee to convene a meeting of the Audit Committee and the chairman of the Audit Committee shall have the discretion whether or not to convene such a meeting and decide on the date, time and venue of such meeting.

7. Notice of meetings

- 7.1 Meetings of the Audit Committee shall be summoned by the secretary of the Audit Committee at the request of any of its members or at the request of the external or internal auditors.
- 7.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date shall be forwarded to each member of the Audit Committee, and to any other person required to attend:
- 7.2.1 in relation to all regular meetings of the Audit Committee, at least 14 days before the date of the meeting; and
- 7.2.2 in relation to all other meetings of the Audit Committee, within a reasonable time prior to the date of the meeting.
- 7.3 An agenda of items to be discussed, together with supporting papers shall be sent to Audit Committee members and to other attendees as appropriate within a reasonable time prior to the date of the meeting.
- 7.4 Any member of the Audit Committee shall be entitled, by notice to the secretary of the Audit Committee, to include other matters relevant to the functions of the Audit Committee in the agenda of an Audit Committee meeting.

8. Minutes of meetings

- 8.1 The secretary of the Audit Committee (or his/her delegate) in attendance at the meetings of the Audit Committee shall minute in sufficient detail the proceedings and resolutions of all such meetings, including the names of those present and in attendance. The minutes should also include any concerns raised by any member of the Audit Committee and/or dissenting views expressed.
- 8.2 The secretary of the Audit Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The relevant member of the Audit Committee shall not be counted towards the quorum and he/she must abstain from voting on any resolution of the Audit Committee in which he/she and/or his/her associates have a material interest.
- 8.3 Draft and final versions of minutes of Audit Committee meetings shall be sent to all Audit Committee members for their comments and records respectively, in both cases within a reasonable time after the meeting. Once they are agreed, the secretary of the Audit Committee shall circulate the minutes, and reports of the Audit Committee, to all members of the Board.
- 8.4 Minutes of the Audit Committee meetings shall be kept by the secretary of the Audit Committee and shall be available for inspection by any member of the Audit Committee and/or any Director of the Company at any reasonable time on reasonable notice.

9. Annual general meetings

- 9.1 The chairman of the Audit Committee shall endeavour to attend the annual general meetings of the Company and be prepared to respond to any Shareholder questions on the Audit Committee's activities.
- 9.2 If the chairman of the Audit Committee is unable to attend an annual general meeting of the Company, he shall arrange for another member of the Audit Committee or, failing this, his duly appointed delegate, to attend in his place. Such person shall be prepared to respond to any Shareholder questions on the Audit Committee's activities.

10. Reporting responsibilities

- 10.1 The chairman of the Audit Committee shall report formally to the Board on proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2 The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 Where the Board disagrees with the Audit Committee's views on the selection, appointment and resignation or dismissal of the external auditor, the Audit Committee shall prepare a statement, for inclusion in the Company's Corporate Governance Report, explaining its recommendations. The Board shall include in the same report the reason(s) why the Board takes a different view.
- 10.4 The Audit Committee shall, with the assistance of the secretary of the Audit Committee, compile a report to Shareholders on its role and activities to be included in the Company's Corporate Governance Report.

11. Line of communication

- 11.1 The Chairman of the Audit Committee shall give instructions (via the Chairman or the Financial Controller) to conduct reviews on areas of possible concern to be performed by the Internal Audit Services of the Auditors or, if established, the Company internal auditor.

12. Authority

- 12.1 The Audit Committee is authorized by the Board:
 - 12.1.1 to investigate any activity within its terms of reference;
 - 12.1.2 to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee; and
 - 12.1.3 subject to the Company's procedure for seeking external advice, 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.

13. Duties

13.1 The duties of the Audit Committee shall be:

- 13.1.1 to be primarily responsible for making recommendation 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;
- 13.1.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 13.1.3 to develop and implement policy on 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 audit committee should report to the board, identifying and recommendations on any matters where action or improvement is needed;
- 13.1.4 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: -
 - (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 Exchange Listing Rules and other legal requirements in relation to financial reporting;

- 13.1.5 Regarding 13.1.4 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;
- 13.1.6 to review the Company's financial controls, internal control and risk management systems;
- 13.1.7 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;
- 13.1.8 to consider major investigation finding on internal control matters as delegated by the board or on its own initiative and management's response to these findings;
- 13.1.9 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;
- 13.1.10 to review the group's financial and accounting policies and practices;
- 13.1.11 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;
- 13.1.12 to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;
- 13.1.13 to report to the board on the matters set out herein; and
- 13.1.14 to consider other topics, as defined by the board.

14. Other

- 14.1 The Audit Committee shall have access to sufficient resources in order to discharge its duties. In the event that the Audit Committee determines that it has insufficient resources, it may make a request for additional resources to the Board through the Company Secretary.
- 14.2 All members of the Audit Committee shall have access to the advice and services of the secretary of the Audit Committee with a view to ensuring that procedures of the Audit Committee and all applicable rules and regulations are followed.
- 14.3 Any member of the Audit Committee may require access to outside legal or other independent professional advice in connection with his/her duties at the Company's expense. All such requests shall be processed in accordance with the Company's procedures for seeking independent professional advice by Directors.
- 14.4 Every member of the Audit Committee shall give sufficient time and attention to his/her duties as a member of the Audit Committee. He/she shall give the Company the benefit of his skills and expertise through regular attendance and active participation.

Note: In the event of inconsistency, the English texts of the terms of reference of the audit committee shall prevail over the Chinese texts thereof.