

**CHINA INNOVATION INVESTMENT LIMITED**  
**(the “Company”)**  
**TERMS OF REFERENCE OF**  
**AUDIT COMMITTEE**  
**(March 2012)**

**1) Formation**

The Audit Committee was formed on August 2002 pursuant to passing of a Board of Directors’ (the Board’s) resolution.

**2) Purpose**

The purpose of the Audit Committee is to assist the Board in fulfilling its overseeing responsibilities for the financial reporting, risk management, evaluation of internal control system and auditing processes. The Audit Committee also ensures that the Company complies with all applicable laws, regulations and the code of conduct policies.

**3) Composition**

The Audit Committee shall consist of at least three Independent Non-Executive Directors (“INED”) of the Board. The Board shall nominate and appoint committee members and the Committee shall nominate one of the members as the Chairman of the Committee.

**4) Frequency of meeting**

The Audit Committee shall meet at least twice a year, with an authority to convene additional meetings, as circumstances require. All Committee members are expected to attend each meeting, in person or via Tele- or videoconference.

**5) Meeting procedures**

Quorum of meeting shall not be less than two committee members, and each Committee member in the meeting shall carry one vote.

The Committee members shall elect among themselves a Chairman at each meeting. The Committee members shall also appoint the Secretary to the Committee (who should normally be the Company Secretary) from time to time.

Full minutes of the Committee meetings should be kept by the Secretary to the Committee. Draft and final versions of minutes of the Committee meetings should be sent to all committee members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

## **6) Committee's Resolutions**

A resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held and may consist of several documents in like form each signed by one or more of the members of the Committee.

## **7) Responsibilities**

The Committee shall carry out the following responsibilities:

### *Relationship with the Company's auditors*

- (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 Audit Committee should discuss with the 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 audit committee should report to the board, identifying and making recommendations on any matters where action or improvement is needed;

### *Review of the Company's financial information*

- (d) to monitor integrity of the Company's financial statements and the 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 Listing Rules and legal requirements in relation to financial reporting;
- (e) Regarding (d) 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 issuer'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 issuer's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

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

- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) 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;
- (h) 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;
- (i) 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;
- (j) to review the Company's financial and accounting policies and practices;
- (k) 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;
- (l) to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;

(m) to report to the board on the matters in this code provision; and

(n) to consider other topics, as defined by the board.