

CHINA ASSETS (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 170)

AUDIT COMMITTEE

TERMS OF REFERENCE

1. Membership

The Audit Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members. The majority shall be independent non-executive directors. A quorum shall be two members.

The Chairman of the Audit Committee shall be appointed by the Board.

2. Authority

The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate as requested by members of the Audit Committee. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice as necessary to assist the Audit Committee.

3. Meetings

Meetings shall be held not less than three times a year. Additional meetings should be held as the work of the Audit Committee demands. The external auditor may request a meeting if they consider that one is necessary.

4. Attendance

As necessary or desirable, the Chairman may request that members of management and representatives of the external auditor be present at meetings of the Audit Committee. Other Board members shall also have the right of attendance. However, at least once a year the Audit Committee shall meet with the external auditor without executive Board members present.

The Company Secretary shall be the secretary of the Audit Committee.

5. Minutes

Minutes of each Audit Committee meeting shall be prepared and circulated to all members of the Board.

6. Responsibility, duties, powers and functions

The Committee shall have the following responsibilities, duties, powers and functions:

6.1 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 risk management and internal control systems;

Relationship with the Company's external auditor

6.2 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;

6.3 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor the nature and scope of audit and reporting obligations before the audit commences;

6.4 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;

6.5 to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

6.6 to monitor integrity of the Company's financial statements and annual report and accounts, half-year report, 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:

- (a) any changes in accounting policies and practices;
- (b) major judgmental areas;
- (c) significant adjustments resulting from the audit;
- (d) the going concern assumptions and any qualifications;
- (e) compliance with accounting standards; and
- (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;

6.7 regarding (6.6) above:

- (a) 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 external auditor; 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 person occupying the same position) or external auditor;

Oversight of the Company's financial reporting system, risk management and internal control systems

6.8 to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;

6.9 to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. 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;

6.10 to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

6.11 where an internal audit function exists, to ensure co-ordination between the internal and external auditor, 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;

6.12 to review the Company and its subsidiaries' financial and accounting policies and practices;

6.13 to review the external auditor's management letter, any material queries raised by the external auditor to management about the accounting records, financial accounts or systems of control and management's response;

6.14 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

6.15 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;

6.16 to act as the key representative body for overseeing the Company's relations with the external auditor;

6.17 to report to the Board on the matters in this terms of reference; and

6.18 to consider other topics, as requested by the Board.

7. Annual General Meeting

The Chairman of the Committee or in his absence, another Member of the Committee, shall attend the Company's annual general meeting and be prepared to respond to shareholders' questions on the Committee's.

8. Reporting Procedures

The Committee should report to the Board with such recommendations as the Audit Committee may consider appropriate. The chairman of the Committee will present an oral report to the Board on the activities and decisions of the Committee.

(Adopted on 26 August 2016)

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