

Terms of Reference of Audit Committee

1. Establishment of the Committee

The board of directors (the “**Board**”) of Shanghai Industrial Holdings Limited (“**SIHL**” or the “**Company**”) resolved to establish an Audit Committee (the “**Committee**”) at a Board meeting held on 22 December 1998.

2. Objectives for the establishment

In compliance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and for the purpose of enhancing the corporate governance of the Company, it is proposed that the Committee shall review and monitor the Company’s financial reporting, risk management and internal control systems independently and objectively, and establish formal and transparent arrangements for maintaining an appropriate relationship with the Company’s auditor.

3. Composition of the Committee

3.1 The Committee comprises at least three independent non-executive directors, at least one of whom shall have appropriate professional qualifications or accounting or related financial management expertise.

3.2 The members and chairman of the Committee shall be appointed by the Board.

3.3 A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Committee for a period of two years from the date of the person ceasing:

3.3.1 to be a partner of the firm; or

3.3.2 to have any financial interest in the firm,

whichever is later.

4. Secretary of the Committee

The company secretary of SIHL shall act as the secretary of the Committee and shall be responsible for matters relating to Committee meetings and keeping minutes.

5. Meetings and Quorum

- 5.1 The quorum for a Committee meeting shall be two members. In the absence of the Committee chairman, the Committee members present shall elect one of their numbers to chair that meeting.
- 5.2 Unless in exceptional circumstances, the chief financial officer, the staff of internal audit personnel, representative(s) of the auditor and the secretary of the Committee shall be present at the Committee meetings.
- 5.3 All other Board members are entitled to be present at the Committee meetings and shall attend the meetings if invited by the Committee.
- 5.4 The Committee may convene a meeting as and when necessary or transact business by means of resolutions in writing signed by all the Committee members, but in any case, meetings shall be held not less than twice a year.
- 5.5 The Committee shall meet with the auditor at least once a year without the presence of the executive directors.
- 5.6 The agenda and related board papers should be sent in full to all members of the Committee in a timely manner and where practicable at least 3 days before the intended date of a Committee meeting (or such other period as agreed by the Committee).
- 5.7 The place of the Committee meeting shall be the conference room of the Company (or such other place as agreed by the Committee). Meetings of the Committee may be held by telephone conference if required.
- 5.8 Minutes of the Committee meeting should record in sufficient detail the matters considered and decisions reached, including any concerns raised by Committee members or dissenting views expressed. Draft and final versions of minutes of Committee meetings should be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting is held.

- 5.9 Full minutes of Committee meetings should be kept by the Committee secretary. Committee members are entitled to have access to the minutes.
- 5.10 The Committee shall report to the Board on a regular basis. At the next Board meeting subsequent to a Committee meeting, the Committee chairman shall report the results of discussion and make recommendation to the Board.

6. Responsibilities of the Committee

- 6.1 The Committee is a standing committee under the Board. It discharges its duties under the terms of reference so delegated by the Board, reports and makes recommendations to the Board.
- 6.2 The Committee shall 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 The Committee shall 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 auditor the nature and scope of the audit and reporting obligations before the audit commences.
- 6.4 The Committee shall develop and implement policy on engaging an external auditor to supply non-audit services.
- 6.5 The Committee shall 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 shall focus particularly on:
- 6.5.1 any changes in accounting policies and practices;
 - 6.5.2 major judgmental areas;
 - 6.5.3 significant adjustments resulting from audit;

- 6.5.4 the going concern assumptions and any qualifications;
 - 6.5.5 compliance with accounting standards; and
 - 6.5.6 compliance with the Listing Rules and legal requirements in relation to the financial reporting.
- 6.6 Regard 6.5 above, members of the Committee should liaise with the Board and senior management of Company and the Committee must meet, at least twice a year, with the Company's auditor.
- 6.7 The Committee shall consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the chief financial officer, internal audit personnel, company secretary or auditor.
- 6.8 The Committee shall review the Company's financial controls, risk management and internal control systems.
- 6.9 The Committee shall 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 The Committee shall consider major investigations 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 The Committee shall 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 The Committee shall review the Group's financial and accounting policies and practices.

- 6.13 The Committee shall review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response.
- 6.14 The Committee shall ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- 6.15 The Committee shall report to the Board on the matters in this terms of reference.
- 6.16 The Committee shall consider other topics, as defined by the Board.
- 6.17 The Committee shall review and monitor the independence of external auditor on an annual basis.
- 6.18 The Committee should review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigations of these matters and for appropriate follow-up action; and
- 6.19 The Committee should act as the key representative body for overseeing the Company's relations with the external auditor.

7. Authority of the Committee

- 7.1 The Committee is authorized by the Board to investigate any activity within its terms of reference.
- 7.2 The Committee is authorized by the Board to invite relevant personnel within the Company to attend Committee meetings, and to obtain any information that it requires from any department of the Company if it considers necessary, such that the Committee will be provided with sufficient resources to discharge its duties.

- 7.3 The internal audit sub-committee which comprises the chief financial officer, internal audit personnel and the company secretary shall assist the Committee to conduct its work. The Committee is authorized to obtain any information that it requires from the internal audit sub-committee. All the above-mentioned management personnel are directed to cooperate with any request made by the Committee. All acts done by the sub-committee as authorized shall have the like force and effect, as if done by the Committee. The Committee will be responsible for all such acts and shall report to the Board.
- 7.4 The Committee is authorized by the Board to seek external legal or other independent professional advice and if it considers necessary, and to invite outside parties with relevant experience and expertise to attend meetings, at the Company's expense.

8. Others

- 8.1 The chairman of the Committee should attend the annual general meeting or in the absence of the chairman of the Committee, another member of the Committee or failing this his duly appointed delegate, to be available to answer questions raised by the shareholders.
- 8.2 Taking into account the practical situation of the Company, the Committee may from time to time refer to the applicable rules and regulations as required under the Listing Rules and the general market practice, to make recommendations to the Board for revision of the terms of reference of the Committee.
- 8.3 Where the Board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different review.
- 8.4 The rules and proceedings of Committee meetings shall be governed by the provisions contained in the Company's Articles of Association for regulating the meetings and proceedings of Directors.
- 8.5 The Committee shall include its terms of reference on the Stock Exchange's website and SIHL's website.