



中國海外發展有限公司

CHINA OVERSEAS LAND & INVESTMENT LTD.

(incorporated in Hong Kong with limited liability)

(Stock Code: 688)

AUDIT COMMITTEE

(established on 21 September 1999)

TERMS OF REFERENCE

Constitution

1. The board of directors of the Company (the "**Board**") has resolved to establish a Committee of the Board to be known as the Audit Committee (the "**Committee**").

Membership and Quorum

2. The 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, a majority of whom should be independent non-executive directors of the Company. A quorum shall be two members.
3. The chairman of the Committee shall be appointed by the Board.

Secretary

4. The company secretary of the Company shall be the secretary of the Committee (the "**Secretary**").

Frequency of meetings

5. Meetings shall be held not less than four times a year.

Notice of meetings

6. Notice of meetings shall be given to all members of the Committee at least 7 days before the meeting.

Casting vote

7. In the case of an equality of votes, the chairman of the Committee shall have the casting vote.

Performance of Duties

8. The Company should provide the Committee sufficient resources to perform its duties. The budget of such resources should be controlled and approved by the Board. Any additional resources which are not budgeted should be subject to further approval by the Board. Where necessary, the Committee should seek independent professional advice, at the Company's expense, to perform its responsibilities.

Duties

9. The duties of the Committee shall include:

Relationship with the Company's auditors

- (a) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (b) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignations or dismissals;
- (c) to consider all relationships between the Company and the audit firm (including non-audit services), and to review and monitor the external auditors' independence and objectivity to and the effectiveness of the audit process in accordance with applicable standards;
- (d) to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
- (e) to develop and implement policy on engaging external auditors to supply non-audit services. For this purpose, external auditors include 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;
- (f) to ensure that the external auditors' provision of non-audit services does not impair their independence and objectivity. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee may consider: (i) whether the skills and experience of the audit firm make it a suitable supplier of non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services; (iii) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and (iv) criteria for compensation of the individuals performing the audit;

- (g) to agree with the Board on the Company's policies on hiring employees or former employees of the external auditors and monitoring the application of these policies to ensure that there is no and does not appear to be any impairment of the external auditors' judgement or independence for the audit;
- (h) to review the external auditors' management letter and any material queries raised by the external auditors about accounting records, financial accounts or systems of control and management's response;
- (i) to obtain from the audit firm annually information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff;
- (j) to meet with the external auditors at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditors may wish to raise;
- (k) 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

- (l) 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting.
- (m) regarding (l) 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.

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

- (n) to review the Company's financial controls, internal control and risk management systems;
- (o) 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;
- (p) to consider major investigation findings on internal control matters as delegated by the Board or based on the Committee's own initiative and management's response to these findings;
- (q) to ensure co-ordination between 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 ;
- (r) to review the operating, financial and accounting policies and practices of the Company and its subsidiaries (collectively, the "**Group**");
- (s) to review arrangements employees of the Group and (where applicable) those who deal with the Group (e.g. customers, suppliers and business partners) can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (t) to ensure that the Board will provide timely response to the issues raised in the external auditors' management letter;
- (u) to report to the Board on the matters in the code provisions set out in the Corporate Governance Code adopted by the Company from time to time in respect of audit committee; and
- (v) to consider other topics defined by the Board.

Reporting procedures

10. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.