

GUANGDONG TANNERY LIMITED
粤海制革有限公司

Terms of Reference of Audit Committee

Formation

The Audit Committee (the “Committee”) was formed pursuant to the board resolution of GUANGDONG TANNERY LIMITED (the “Company”) passed on 25 September 1998.

Composition and Quorum

The Committee shall be appointed by the board of directors of the Company (the “Board”) from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of who should be independent non-executive directors. A quorum shall be two members.

The Chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.

The meetings and proceedings are governed by the provisions contained in the articles of association of the Company for regulating meetings and proceedings of Directors.

Attendance at meetings

1. Attendees shall normally include Committee’s members, the Chief Financial Officer, the Head of Internal Audit (where an internal audit function exists), a representative of the external auditor and those with meaningful input to the Committee’s activities. However, at least once a year the Committee shall meet with the external and internal auditors (if any) without executive board members present. The quorum for meetings of the Committee shall be two members.
2. The company secretary shall be the secretary of the Committee. The secretary of the Committee or in his/her absence, his/her representative or any one member, shall be the secretary of the meetings of the Committee.

Frequency of meetings

Meetings shall be held not less than twice a year. The chairman of the Committee may convene additional meetings at his discretion. In addition, the external auditor may also request a meeting if they consider that one is necessary.

Reporting procedures

The secretary or his/her representative shall circulate minutes of meetings and reports of the Committee to all members of the Board.

The Committee is required to report back to the Board on their decisions and recommendations as and when appropriate and at least once annually.

Authority

1. The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
2. The Committee is authorized by the Board 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.

Duties

1. The duties of the Committee shall be:

Relationship with the auditors

- (a) 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 resignation or dismissal of that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The 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 the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall 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 having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

Review of financial information of the Company

- (d) to monitor integrity of financial statements of the Company and the Company's 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 this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly 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 (the "Listing Rules") and other legal requirements in relation to financial reporting;
- (e) In regard to (d) above:
 - i. members of the Committee must liaise with the Company's Board and senior management and the Committee must meet, at least once a year, with the Company's auditor; and
 - ii. the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must 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 auditor;

Oversight of the Company'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 with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (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 the effectiveness of the internal audit function;
- (j) to review the Group'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 in respect of the 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 set out in the code provisions in relation to Audit Committee under Appendix 14 of the Listing Rules; and
- (n) to consider other topics, as defined by the Board.

(Terms of Reference of Audit Committee take effect from 1 January 2009)