

Shifang Holding Limited (“Company”)

Terms of Reference for Audit Committee

(Revised on 8 January 2016)

Constitution

1. The board of directors of the Company (the “**Board**”) has established a committee known as the audit committee (the “**Committee**”).

Membership

2. The members of the Committee (the “**Members**”) shall be appointed by the Board from amongst the directors of the Company (the “**Directors**”) and shall consist of not less than three Members, a majority of whom should be independent non-executive Directors. At least one Member shall have the appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Two Members shall form a quorum.
3. A former partner of the Company’s existing auditing firm (the “**Firm**”) is prohibited from acting as a Member for a period of 1 year from the date of his ceasing:
 - (a) to be a partner of the Firm; or
 - (b) to have any financial interest in the Firm,whichever is later.
4. The chairperson of the Committee (the “**Chairperson**”) shall be appointed by the Board and should be an independent non-executive Director and in his/her absence, Members present may elect any Member to chair a Committee meeting.

Attendance at meetings

5. The chief financial officer of the Company (the “**Chief Financial Officer**”) and a representative of the external auditors shall normally attend meetings. However, at least once a year the Committee shall meet with the external and internal auditors without other executive Board members present. The Chief Financial Officer (or such other person appointed by the Chairperson) shall be the secretary of the Committee and in his/her absence, such other person appointed by the Chairperson shall act as secretary of the relevant Committee meeting (the “**Secretary**”).

Frequency and procedure of meetings

6. Meetings shall be held not less than 2 times a year and special meetings may be called at the discretion of the Chairperson or at the request of the Board or senior management to review significant control or financial issues. The external auditors may request a meeting if they consider that one is necessary. The Members may adopt from time to time the procedure governing the convening of the Committee meetings, the means and procedure for the passing of resolutions at meetings of the Committee.

Authority

7. 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.
8. 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

9. The duties of the Committee shall be:

Relationship with the Company's external auditor

- (a) to be primarily responsible for making recommendation to the Board on (i) the appointment, reappointment and removal of the external auditor; (ii) the audit fee and the terms of engagement of the external auditor; and (iii) any questions of resignation or dismissal of that auditor, taking into account the quality and rigour of the audit, the quality of the audit service provided, the auditing firm's quality control procedures, relationships between the external auditors and the Company, and the independence of the auditors;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, to discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and to ensure co-ordination where more than one audit firm is involved;

- (c) to develop and implement policy on engaging an external auditor (which 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 of all relevant information would reasonably conclude to be part of the audit firm nationally or internationally) to supply non-audit services, to identify and report to the Board on any matters where action or improvement is needed;
- (d) to act as the key representative body for overseeing the Company's relations with the external auditor;

Review of the Company's financial information

- (e) to monitor integrity of the Company's financial statements and annual report and accounts, interim report and quarterly financial highlights (or quarterly reports when required by the Listing Rules or when deemed appropriate by the Company), and to review significant financial reporting judgments contained in them. In reviewing reports before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with stock exchange and legal requirements;
- (f) in conducting the review described in (d) above, Members:
 - (i) should liaise with the Board and senior management and the Committee must meet with the auditors at least twice a year, with the Company's auditors; and
 - (ii) consider any significant or unusual items that are, or may need to be, reflected in the report and accounts and 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(s) or auditors;

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

- (g) 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;
- (h) to discuss the risk management and internal control system with management and to ensure that management has performed its duty to have effective systems. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (i) 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 and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (j) 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;
- (k) to review the Company's statement on its internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (l) to review and monitor the effectiveness of the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (m) 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 effective;
- (n) to review the group's financial and accounting policies and practices;

- (o) to review the external auditor's management letter, any material queries raised by the auditor to the management about accounting records, financial accounts or systems of control and the management's response;
- (p) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (q) to report to the Board on the matters set out in paragraph C.3.3 of the Corporate Governance Code (as amended from time to time); and
- (r) to consider other topics, as defined by the Board.

Other Procedures

10. The Chairperson, in consultation with the Secretary, should be primarily responsible for drawing up and approving the agenda of each Committee meeting. The Chairperson, with the assistance of the Chief Financial Officer, shall ensure that all Members shall have sufficient information in a timely manner to enable effective discussion at a Committee meeting and be briefed on the issues arising at each Committee meeting. The Secretary shall record minutes of all duly constituted meetings of the Committee. All minutes shall record in sufficient detail the matters considered, decisions reached or recommendations made and any concerns raised by any Member, the external auditor and the Chief Financial Officer including dissenting views of any Member. The Secretary shall circulate the draft and final versions of the minutes of meetings and reports of the Committee to all Members for comments and records within a reasonable time after each meeting. The Chairperson shall report at the forthcoming regular Board meeting any key decisions made and shall table before the Board an index of meetings and issues discussed.
11. This Terms of Reference has been prepared in English and Chinese, and both versions possess equal status and have the same effect.