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CHINA NEW ECONOMY FUND LIMITED

AUDIT COMMITTEE

TERMS OF REFERENCE

1. CONSTITUTION

Pursuant to the resolutions passed on 28 July 2010 by the Board of Directors of the Company (the "**Board**"), an Audit and Remuneration Committee (the "**Committee**") was established and its terms of reference were adopted.

Pursuant to the meeting of the Board of Directors of the Company dated 20 December 2011, the Committee was split into the "Audit Committee" and "Remuneration Committee". The following Terms of Reference of the Audit Committee of the Company were adopted by the Board of Directors of the Company.

2. PURPOSE

The Audit Committee's audit purposes include:-

- 2.1 To perform an oversight role to monitor the financial reporting and audit processes, including the management, the authorised independent auditors (the "**Authorised Auditors**") and the interaction between the parties.
- 2.2 To support management in identifying, disclosing and dealing with problems and that an effective internal audit process is adhered to.
- 2.3 To ensure that the Authorised Auditors can perform their work independently and objectively.
- 2.4 To promote open discussions among parties involved in the financial reporting and audit processes with a view to exercise better judgment and estimates.

(collectively the "**Audit Purposes**")

3. RESPONSIBILITIES

The Audit Committee shall have the following audit responsibilities with a view to achieving the above Audit purposes: -

Relationship with the Authorised Auditors

- 3.1 To recommend to the Board on the appointment, reappointment and removal of the Authorised Auditors, and to approve the remuneration and terms of engagement of the Authorised Auditors, and any questions of resignation or dismissal of the Authorised Auditors.

- 3.2 To review and monitor the Authorised Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard.
- 3.3 To discuss with the Authorised Auditors the nature and scope of the audit and reporting obligations before audit commences.
- 3.4 To establish the following procedures to review and monitor independence of the Authorised Auditors:-
- (a) consider all relationships between the Company and the Authorised Auditors (including the provision of non-audit services);
 - (b) seek from the Authorised Auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding rotation of audit partners and staff; and
 - (c) meet with the Authorised 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 Authorised Auditors may wish to raise.
- 3.5 To develop and implement policy on the engagement of the Authorised Auditors to supply non-audit services. For this purpose, the Authorised Auditors 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 ensure that the provision of such services does not impair the Authorised Auditors' independence or objectivity. In relation to non-audit services, the Committee should consider:-
- (a) whether the skills and experience of the Authorised Auditors make it suitable supplier of the non-audit services; and
 - (b) whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the Authorised Auditors.
- 3.6 To 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.
- 3.7 To act as the key representative body for overseeing the Company's relation with the Authorised Auditors.
- 3.8 To discuss with the Authorised Auditors problems or reservations they may have during audit process in the absence of the management.

Review of financial information

- 3.9 To monitor the integrity of financial statements and the annual report and accounts, half-year reports and quarterly reports (if published), and to review significant financial reporting judgements contained in them.
- 3.10 To review the financial statements and annual report and accounts, half-year reports and quarterly reports (if published) before submission to the Board with particular focus on:-
- (i) any changes in accounting policies and practices and their appropriateness;
 - (ii) major judgmental issues and estimates;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting.
- 3.11 In regard to 3.10 above:-
- (i) members of the Audit Committee must liaise with the Board, and the Chief Executive Officer and the Audit Committee must meet, at least twice a year, with the Authorised Auditors; and
 - (ii) the Audit 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 Chief Executive Officer, management, including the Legal and Company Secretarial Department or the Authorised Auditors.

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

- 3.12 To review the Company's financial controls, internal control and risk management systems.
- 3.13 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.
- 3.14 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.
- 3.15 To ensure co-ordination between management and the Authorised 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.
- 3.16 To review the Group's financial and accounting policies and practices.
- 3.17 To review the Authorised Auditors' management letter, any material queries raised by the Authorised Auditors to management in respect of the accounting

records, financial accounts or systems of control and management's response.

- 3.18 To ensure that the Board will provide a timely response to the issues raised in the Authorised Auditors' management letter.
- 3.19 To coordinate annual reviews of the effectiveness of the systems of the internal control of the Group and report to shareholders in the Company's Corporate Governance Report.
- 3.20 To conduct annual audit planning reviews with management.
- 3.21 To review the general adequacy of the accounting systems and internal controls and discuss with the management on the efficiency of the internal controls in place.

*Connected Transactions under the Listing Rules of The Stock Exchange of Hong Kong Limited ("**Listing Rules**")*

- 3.22 To review and discuss with the Compliance department any problems in relation to compliance with the Listing Rules in respect of connected transactions.
- 3.23 In addition to the existing half-year Audit Committee meeting and year-end Audit Committee meeting which mainly deal with financial results, to hold two more Audit Committee meetings to consider and review connected transaction matters, including but not limited to the database of connected transactions.
- 3.24 In the course of reviewing the financial statements and the auditors' report (including the notes to the accounts), to consider the disclosures on connected transactions in the notes to the accounts and, if necessary, discuss such disclosures (in particular, those connected transactions in respect of which waivers have been granted or otherwise subject to the reporting requirements under the Listing Rules) with the Authorised Auditors and the Legal and Company Secretarial Department.

Other responsibilities

- 3.25 To review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action.
- 3.26 To satisfy itself that proper business ethics have been followed.
- 3.27 To report all relevant matters to the Board.
- 3.28 To conduct such investigation in relation to matters or activity within its terms of reference.
- 3.29 To consider other topics or carry out any other duties as the Board may delegate from time to time and report back to the Board on their discussion or recommendations.

4. AUTHORITY

- 4.1 The Audit Committee has unrestricted access to the Chairman, the Chief Executive Officer, the Authorised Auditors and senior management.
- 4.2 The members of the Audit Committee shall have access to the advice and services of the Company Secretary with a view to ensuring that procedures of the Audit Committee and all applicable rules and regulations are followed.
- 4.3 The members of the Audit Committee may upon reasonable request to the Chairman of the Audit Committee and the Chairman of the Company, seek outside legal or other independent professional advice at the Company's expense to assist them to discharge their duties to the Company.
- 4.4 The Audit Committee shall have access to sufficient resources in order to discharge its duties. In the event that the Audit Committee determines that it has insufficient resources, it may make a request for additional resources to the Board through the Company Secretary.

5. DISCLOSURE

- 5.1 The Audit Committee shall report to the shareholders in the Company's Corporate Governance Report on the work performed during the year in discharging its responsibilities and duties.
- 5.2 Where the Board disagrees with the Audit Committee's views on the selection, appointment and resignation or dismissal of the Authorised Auditor, the Audit Committee shall prepare a statement, for inclusion in the Company's Corporate Governance Report, explaining its recommendations. The Board shall include in the same report the reason(s) why the Board takes a different view.

6. MEMBERS

- 6.1 The members of the Audit Committee shall be appointed by the Board.
- 6.2 The majority of the members of the Audit Committee shall be Independent Non-executive Directors and at least one Independent Non-executive Director shall have the appropriate qualifications or expertise in financial management.
- 6.3 Chairman of the Audit Committee shall be appointed by the Board.
- 6.4 The Audit Committee shall consist of not less than three members.
- 6.5 A former partner of the Company's existing Authorised Auditors should be prohibited from acting as a member of the Audit Committee for a period of one year commencing on date of his ceasing:-
 - (i) to be a partner of the Authorised Auditors; or
 - (ii) to have any financial interest in the Authorised Auditorswhichever is the later.

- 6.6 The Board may, from time to time, at their discretion, amend the terms of reference or adopt new terms of reference or change the composition of the members of the Audit Committee.

7. MEETING AND PROCEEDINGS

- 7.1 Unless otherwise stated herein, the meetings are governed by the provisions contained in the Company's Articles of Association for regulating the meetings and proceedings of Directors.
- 7.2 Meetings of the Audit Committee shall be planned at the beginning of each financial year of the Company, and shall not be less than two times a year. The Audit Committee shall also meet as and when necessary to discharge of its duties at the request of any two members of the Audit Committee.
- 7.3 Executive Directors, the Authorised Auditors, management or other persons who are appropriate may be invited to attend particular meetings to answer specific points or concerns.
- 7.4 The quorum of an Audit Committee meeting shall be any two members of the Audit Committee one of whom must be Independent Non-executive Director.
- 7.5 Meeting could be held in person, by telephone or by video conference. Members of the Audit Committee may participate in a meeting by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting are capable of hearing each other.
- 7.6 A resolution in writing signed by all the members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.
- 7.7 No member should have a role in determining his own compensation.

8. ANNUAL GENERAL MEETINGS

- 8.1 The Chairman of the Audit Committee shall endeavour to attend the Annual General Meetings of the Company and be prepared to respond to any shareholder questions on the Audit Committee's activities.
- 8.2 If the Chairman of the Audit Committee is unable to attend an Annual General Meeting of the Company, he shall arrange for another member of the Audit Committee, or failing this, his duly appointed delegate, to attend in his place. Such person shall be prepared to respond to any shareholder questions on the Audit Committee's activities.

9. MINUTES AND RECORDS

- 9.1 Proper minutes of Audit Committee meetings shall be kept by the Company Secretary and shall be open for inspection by any Director at any reasonable time on reasonable notice by the Director.
- 9.2 Minutes of Audit Committee meetings shall record in sufficient detail the

matters considered by the Audit Committee and decision reached, including any concerns raised by the Audit Committee members or dissenting views.

- 9.3 Draft and final versions of minutes of the Audit Committee shall be circulated to all members of the Audit Committee for their comment and records respectively, within a reasonable time after the meeting is held.

10. INCORPORATION OF AMENDMENTS TO THE LISTING RULES

- 10.1 These terms of reference have been prepared based on the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which came into effect on 1 January 2005.
- 10.2 To the extent that there are any relevant amendments to the Code or the Listing Rules after the date of adoption of these terms of reference which the Company is expected to comply with (the "Relevant Amendments"), the Company will make corresponding changes to these terms of reference as soon as reasonably practicable to incorporate the Relevant Amendments. Pending such change, the Relevant Amendments shall be deemed to have been incorporated into these terms of reference from the date on which they come into effect.
- 10.3 To the extent that there are any relevant amendments to the Code or the Listing Rules after the date of adoption of these terms of reference which are for the Company's guidance only, such amendments shall only be incorporated into these terms of reference after they have been duly adopted by the Board.

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