

INTERCHINA HOLDINGS COMPANY LIMITED

(the “Company”)

Audit Committee

Terms of Reference

Relationship with the Company’s auditors

1. 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;

Note : The Company are reminded that rule 13.51(4) requires an announcement to be published when there is a change of auditors. The announcement must also include a statement as to whether there are any matters that need to be brought to holders of securities of the Company.

2. to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
3. 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 audit 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

4. 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 judgements 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: -
 - (a) any changes in accounting policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and

(f) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting;

5. In regard to (d) above:-

(a) members of the committee must liaise with the Company's Board of directors, senior management and the person appointed as the Company's qualified accountant and the committee must meet, at least once a year, with the Company's auditors; and

(b) 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 qualified accountant, compliance officer or auditors;

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

6. to review the Company's financial controls, internal control and risk management systems;

7. 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 budgets;

8. 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;

9. 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;

10. to review the group's financial and accounting policies and practices;

11. 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;

12. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

13. to report to the Board on the matters set out in this code provision;

14. to consider other topics, as defined by the Board.

15. The audit committee may wish to consider establishing the following procedure to review and monitor the independence of external auditors: -

- (a) Consider all relationships between the Company and the audit firm (including the provision of non-audit services);
 - (b) seek from the audit firm, 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 auditor, 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 auditor may wish to raise.
16. The audit committee may wish to consider agreeing with the board the Company's policies relating to the hiring of employees or former employees of the external auditors and monitor the application of such policies. The audit committee should then be in a position to consider whether in the light of this there has been any impairment or appearance of impairment, of the auditor's judgement or independence in respect of the audit.
17. The audit committee would normally be expected to ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the audit committee may wish to consider:
- (i) whether the skills and experience of the audit firm make it a suitable supplier of the non-audit services;
 - (ii) 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 external auditor;
 - (iii) the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm; and
 - (iv) the criteria which govern the compensation of the individuals performing the audit.
18. The terms of reference of the audit committee should also require the audit committee:
- (a) 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; and
 - (b) to act as the key representative body for overseeing the Company's relation with the external auditor.