

HUAYU EXPRESSWAY GROUP LIMITED
(the “Company”)

Terms of reference of the Audit Committee (the “Committee”)
of the Board of Directors (the “Board”) of the Company

1. Constitution

- 1.1 The Committee is established pursuant to a resolution passed by the Board at its meeting held on 30 November 2009 with its responsibilities:
- (a) to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (the “**Group**”), and as to the adequacy of the external and internal audits;
 - (b) to assure that appropriate accounting principles and reporting practices are follows;
 - (c) to be primarily responsible for making recommendation to the board on the appointment, re-appointment and removal of the authorized independent auditors (the “**External Auditors**”), and to approve the remuneration and terms of engagement of the External Auditors, and any questions of resignation or dismissal of the External Auditor;
 - (d) to serve as a focal point for communication between other directors, the External Auditors and the internal auditors or any person responsible for internal audit function (the “**IA People**”) as regards their duties relating to financial and other reporting, internal controls, external and the IA People and such other matters as the Board determines from time to time;
 - (e) 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 auditors the nature and scope of the audit and reporting obligations before the audit commences, and ensure co-ordination where more than one audit firm is involved. Procedures to review and monitor the independence of external auditor may include:
 - (i) consider all relationship between the Group and the audit firm (including the provision of non-audit services);
 - (ii) 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

- (iii) 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 auditors may wish to raise.
- (f) to develop and implement policy on the engagement of the external auditors to supply non-audit services;
- (g) to monitor integrity of the financial statements, annual report and accounts, and half-year report (including Directors' Report, Chairman's Statement and management discussion and analysis), and to review significant financial reporting judgments contained in them. In this regard, in reviewing the annual report and accounts, and half-year report 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 the audit;
 - (iv) the going concern assumption and any qualifications;
 - (v) compliance with accounting and auditing standards; and
 - (vi) compliance with the Listing Rules and legal requirements;
 - (vii) reviewing the fairness of connected transactions and making disclosures in accordance with the Listing Rules and accounting standards; and
 - (viii) 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 financial controller and the compliance officer of the Company or External Auditors.
- (h) to review audit and control related corporate representations made to External Auditors, IA People and to the shareholders of the Company;
- (i) review with External Auditors and IA People, the Group's management, the adequacy of the group's policies and procedures regarding internal controls (including financial, operational and compliance controls) and any statement by the directors to be included in the annual accounts prior to endorsement by the Board;
- (j) review and monitor the effectiveness of the financial controls, internal control and risk management system;

- (k) discuss with the management the internal control system and ensure that management has discharged its duty to have an effective internal control system;
- (l) consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (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 the effectiveness of the internal audit function;
- (n) review the Group's financial and accounting policies and practices;
- (o) 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 system of control and 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 the code provision C.3 of the Appendix 14 Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and
- (r) to implement any other duties as delegated by the Board.

2. Membership

- 2.1 Members of the Committee shall be appointed by the Board from amongst the directors of the Company and shall consist of not less than three members, all of whom shall be independent non-executive directors and at least one of the Committee members shall be independent non-executive director with appropriate qualifications or accounting or related financial management expertise as required under Rule 3.10(2) and 3.21 of the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
- 2.2 The Board shall nominate a member of the Committee as the chairman (the "**Chairman**").
- 2.3 A former partner, principal, shareholder, or professional employee of the Company's existing external auditor is prohibited from acting as a Committee member for a period of 1 year as calculated under the Listing Rules and applicable auditor independence rules.
- 2.4 The Chairman and members of the Committee are:

Chairman: Chu Kin Wang, Peleus

Member: Hu Lie Ge

Sun Xiao Nian

3. Frequency and proceedings of meetings

- 3.1 The Committee should meet at least two times per year. The Chairman may convene additional meetings at his discretion.
- 3.2 The Committee shall meet with the External Auditors without any executive member of the Board in attendance at least once a year.
- 3.3 The quorum for the Committee meeting shall be two members of the Committee.
- 3.4 The Secretary of the Company shall act as the secretary of the Committee.
- 3.5 The notice and agenda of any meeting should be given 14 days before the date of the meeting. The Committee meeting papers should be circulated to all members 3 days before the intended date of a Committee meeting by hand, by post or in electronic forms.
- 3.6 Members may participate in the Committee meetings by telephone or video conference or electronic or other communications facilities provided that each member can hear and be heard by all other members throughout the meeting and such participation shall constitute presence for purposes of the quorum provision of article 3.3.
- 3.7 Subject to clause 2, the members of the Committee present may elect any one member to chair the meeting provided that the Chairman is not present within half an hour from the time of the intended Committee meeting to be convened and held.

4. Authorities

- 4.1 The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- 4.2 The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
- 4.3 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee will arrange for the corporate governance report in the annual report to include an explanation of the Committee's view and the reasons why the Board has taken a different view.
- 4.4 The Committee shall be provided with sufficient resources to discharge its duties.
- 4.5 The Committee shall be made available these Terms of Reference by making it available on request and by including the information on the Company's website.

5. Reporting Procedures

- 5.1 The Secretary of the Company shall circulate the agenda and the draft minutes of the meetings of the Committee to all members of the Board for their comment within a reasonable time prior to the meetings. Minutes and reports of the meetings and all written resolutions of the Committee shall be sent to all members of the Committee within a reasonable time after the meetings.
- 5.2 The Chairman shall report to the Board at regular basis and present a report of the Committee to the Board at least twice a year.
- 5.3 Full minutes of the meetings of the Committee should be kept by the secretary of the Committee.

6. Continuing application of the articles of association of the Company

- 6.1 The articles of association of the Company regulating the meetings and proceedings of the Directors so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Committee.

7. Powers of the Board

- 7.1 The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including the Code on Corporate Governance Practices), amend, supplement and revoke these terms of reference and any resolution passed by the Committee provided that no amendments to and revocation of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid if such terms of reference or resolution had not been amended or revoked.

8. If there is any inconsistency between the English and Chinese terms of reference, English version will prevail.