

CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED
(the “Company”)

TERMS OF REFERENCE
OF
THE AUDIT COMMITTEE

Constitution

1. The Audit Committee (the “**Committee**”) is established by the Board of Directors of the Company (the “**Board**”).

Membership

2. The Committee members shall be appointed by the Board and comprise three non-executive Directors, at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise. A majority of the Committee members shall be independent non-executive Directors. A quorum shall be two members.
3. The chairman of the Committee shall be appointed by the Board and from amongst the independent non-executive Directors.
4. The Company Secretary of the Company shall be the secretary of the Committee. The secretary of the Committee or in his absence, his representative or any one member, shall be the secretary of the meetings of the Committee.
5. The remuneration of the Committee members shall be fixed by the Board.

Authority

6. The Committee is granted the authority to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employees of the Company and China Merchants China Investment Management Limited (the “**Investment Manager**”) and all employees of the Company and the Investment Manager are directed to co-operate with the Committee. The Committee is also authorised by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise as necessary to assist the Committee.

Responsibility

7. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, and by satisfying themselves as to the effectiveness of the Company’s risk management and internal control systems including the adequacy of resources, staff qualifications and experience, training programmes and related budget of the Company’s accounting and financial reporting function and as to the sufficiency of the external audit.

Attendance at meetings

8. As necessary or desirable, the chairman of the Committee may request that the Qualified Accountant of the Company, members of management of the Investment Manager, the designated accountant of the Investment Manager who is responsible for preparing the accounts of the Company and representatives of the external auditor be present at meetings of the Committee. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditor without any executive Board members present.

Each member of the Committee is entitled to appoint an alternate or a proxy to represent him, whether generally for all meetings of the Committee, or specifically for any particular meeting(s) of the Committee. Any such appointment shall be effected in writing and delivered to the Company.

Frequency of meetings

9. The Committee shall meet at least twice a year and when it considers additional meetings are necessary. The external auditor may request a meeting if they consider that one is necessary.

Duties

10. The duties of the Committee shall be :
 - (a) to consider the appointment of the external auditor, the audit fee, and any questions of resignation or dismissal of that auditor;
 - (b) to review with the Company's management and the external auditor the adequacy of the Company's policies and procedures regarding financial and internal controls and risk management system;
 - (c) to review the Company's financial and accounting policies and practices;
 - (d) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor before an audit commences, the nature and scope of the audit and reporting obligations, and ensure co-ordination where more than one audit firm is involved;
 - (e) to develop and implement policy on engaging external auditor to supply non-audit services. For this purpose, "external auditor" 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 all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

- (f) to monitor integrity of the Company's financial statements and 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 reviewing these 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 the audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules of the Hong Kong Stock Exchange and legal requirements in relation to financial reporting;
- (g) in regard to (f) above, members of the Committee should liaise with the Board and senior management and the Committee must meet at least twice a year with the external auditor. The Committee should 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 relevant staff responsible for the accounting and financial reporting function, compliance officer or auditor;
- (h) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (i) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (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) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

- (l) to monitor and review the effectiveness of the Company's whistle-blowing policy and the actions resulting from the investigation;
- (m) to act as the key representative body for overseeing the Company's relationship with the external auditor;
- (n) to review the Company's statement on risk management and internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (o) to report to the Board on the matters set out in this terms of reference of the Committee; and
- (p) to consider other topics as defined by the Board.

Proceedings

11. The proceedings of the Committee not mentioned herein shall be governed by the provisions contained in the Company's Articles of Association for regulating the meetings and proceedings of the Directors of the Company.

Minutes

12. The secretary of the Committee or his representative shall prepare minutes of each Committee meeting and obtain approval of the minutes by the chairman of the Committee and circulate the minutes and reports of the Committee to all Committee members and other members of the Board.

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