

Constitution

1. The Board of Directors (the "Board") resolved on 16 February 2007 to establish a committee known as the Audit Committee (the "Committee") to assist the Board in providing an independent review of the effectiveness of the financial reporting process and internal control system of the Company. The Committee was formed pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). These terms of reference of the Committee were adopted with reference to "Appendix 14 the Code on Corporate Governance Practices" (the "Code") and "Appendix 23 Corporate Governance Report" to the Listing Rules effective 1 January 2005.

Membership

2. The Committee members shall be appointed by the Board on the recommendation of the nomination committee from amongst the non-executive directors of the Company and shall consist of not less than three members, at least one of whom shall be an independent non-executive director with appropriate professional qualifications or appropriate accounting or related financial management expertise.
3. The majority of the members of the Committee shall be independent non-executive directors.
4. The chairman of the Committee shall be appointed by the Board following receipt of a proposal from the nomination committee, who shall be an independent non-executive director.

Quorum

5. A quorum shall be two members.

Attendance at meetings

6. The financial controller, the head of internal audit and representative(s) of the external auditor shall normally attend meetings. The Committee shall invite any appropriate persons to attend the meeting whenever it is necessary. 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 the presence of executive Board members.
7. The members shall participate in meetings of the Committee either in person or by means of a conference telephone or similar communications equipment.

Committee secretary

8. The company secretary shall act as the secretary of the Committee (the "Secretary").

Frequency of meetings

9. Regular meetings of the Committee shall be held not less than twice during a financial year, with each before the Board meeting for approving preliminary announcements of interim results and annual results respectively. Ad hoc meeting may also be convened whenever situation warrants. The external auditors may request a meeting if they consider that one is necessary.

Annual general meeting or special general meeting

10. The chairman of the Committee or his nominee shall attend the Company's annual general meeting and/or special general meeting and be prepared to advise shareholders how to vote with respect to relevant resolutions that require shareholders' approval and/or respond to shareholders' questions.

Arrangement for and notices of meetings

11. Meetings of the Committee shall be called by the Secretary as instructed by the chairman of the Committee, or requested by the Board or external auditor (as the case may be).

12. Notices of at least 14 days shall be given to all members for regular meetings of the Committee. For all other meetings, reasonable notices shall be given.
13. If any member of the Committee wishes to include matters in the agenda for a particular regular meeting, he or she may notify the Secretary such matters in writing within seven days after a notice of the meeting is given.

Access to services of company secretary

14. The Committee shall be provided with sufficient resources to discharge its duties. Members of the Committee shall have access to the advice and services of the company secretary to ensure that board procedures and all applicable rules and regulations are followed.

Minutes of meetings

15. The Secretary shall minute in sufficient detail the proceedings and resolutions of all Committee meetings, including any concerns raised and dissenting views expressed as well as the names of those present and in attendance.
16. Draft and final versions of minutes of meetings of the Committee shall be sent to members of the Committee for their comments and records respectively within a reasonable period of time after the meetings are held. Minutes of meetings of the Committee are open for inspection by any director at any reasonable time on reasonable notice to the company secretary.

Authority

17. 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 and required to co-operate with any request made by the Committee.

Access to independent professional advice

18. The Committee is authorized by the Board to obtain, in connection with its duties and at the Company's expense, any outside legal or other independent professional advice and to secure the attendance of external advisors with relevant experience and expertise if it considers this necessary. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it to discharge its duties.

Duties

19. The principal purpose of the Committee shall be to ensure the Company to duly comply with the financial reporting and internal control principles of the Listing Rules and the Board to maintain an appropriate relationship with the Company's external auditors.
20. The Committee shall perform the following duties:

Relationship with the external auditor

- a. 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 deal with any questions of resignation or dismissal of that auditor;
- b. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. Procedures to review and monitor the independence of external auditor may include:-
 - i. consider all relationships between the Company 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 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 matter the external auditor may wish to raise.
- c. to discuss with the external auditor 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;
- d. 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;
- e. 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.

Review of financial information of the Company

- f. to monitor integrity of financial statements, annual report and accounts, half-year report, if prepared for publication, quarterly reports and to review significant financial reporting judgments contained in them. In reviewing these reports and accounts before submission to the Board, the Committee shall 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 and other legal requirements in relation to financial reporting;

- g. in regard to (f) above:
 - i. members of the Committee shall liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the Committee shall meet, at least once a year, with the external auditor; and
 - ii. the Committee shall 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 external auditor;

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

- h. to review the financial control, internal control and risk management systems of the Company;
- i. 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;
- j. 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;
- k. where an internal audit function exists, to ensure coordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor the effectiveness of the internal audit function;
- l. to review the Group's financial and accounting policies and practices;
- m. to review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's

response;

- n. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- o. to report to the Board on the matter set out in the code provisions under C.3 of the Code; and
- p. to consider other matters, as defined by the Board.

Reporting Procedures

21. The chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its duties and responsibilities where action or improvement is needed.

22. Semi-annual reporting to the Board

Reports to the Board should cover, as appropriate, the work and findings of the Committee in the following areas:

- a. Financial and other reporting;
- b. Internal control and risk management;
- c. Audits; and
- d. Other duties and responsibilities,

23. Corporate Governance Report in the annual report

Disclosure should include:

- a. Its role, function and composition of the Committee members (including names and identifying in particular the chairman of the Committee);
- b. The number of the Committee meetings held during the year and record of individual attendance of members, on a named basis, at meetings held during the year;

- c. A report on the work performed by the Committee during the year in discharging its responsibilities in its review of the quarterly (if relevant), half-yearly and annual results and system of internal control, and its other duties set out in the Code;
- d. Details of non-compliance with rule 3.21 of the Listing Rules (if any) and an explanation of the remedial steps taken by the Company to address such non-compliance relating to establishment of an audit committee; and
- e. A statement on the independence of the Committee.

Others

24. These terms of reference are available on reasonable request made to the company secretary at any reasonable time.
25. The provisions on the Board in the Articles of Association of the Company are incorporated into these terms of reference for the Committee by reference.

*The following **Recommended Best Practices** do not form part of the Terms of Reference but for information only*

Recommended best practices

1. The Committee shall hold meetings at least four times a year at approximately quarterly intervals.
2. The Committee shall also 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 Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action.
3. The Committee shall act as key representative body for overseeing the Company's relation with the external auditor.

Terms of Reference of the Audit Committee

(amended by the Board of Directors of China Agri-Industries Holdings Limited at a Board meeting held on 16 February 2007 to take effect from the date when dealings in the shares of China Agri-Industries Holdings Limited commence on the main board of The Stock Exchange of Hong Kong Limited)

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