中国银河证券股份有限公司
CHINA GALAXY SECURITIES CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 06881)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE UNDER THE BOARD OF DIRECTORS

CHAPTER 1 GENERAL PROVISIONS

Article 1 These terms of reference of China Galaxy Securities Co., Ltd. (the "Company") are formulated in accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Accounting Law of the People's Republic of China, the Code of Corporate Governance for Listed Companies, the Code of Corporate Governance for Securities Companies, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") and other laws and regulations, as well as the Articles of Association and the Rules of Procedure of the Board of Directors, and based on the actual situation of the Company to regulate the decision-making mechanism of the board of directors and improve the corporate governance of the Company.

Article 2 The Audit Committee (the "Committee") of the board of directors is a specialized organization established by the board of directors pursuant to the Articles of Association. It shall assist the board of directors in performing duties within the authorities specified in these terms of reference and shall be accountable and report to the board of directors.

CHAPTER 2 COMPOSITION

Article 3 The Committee shall comprise at least three directors who do not hold senior management positions within the Company, with a majority being independent directors. The chairman (convener) shall be an accounting professional selected among the independent directors.

Article 4 Members of the Committee shall be nominated by the nomination and remuneration committee of the board of directors. The chairman shall be proposed by the chairman of the board of directors and approved by a majority of all members of the Committee.

The chairman and members of the Committee shall be subject to the approval of the board of directors.

A former partner of the external accounting firm responsible for the audit of the accounts of the Company shall be prohibited from acting as a member of the Committee for a period of two years starting from the date of his/her ceasing:

(1) to be a partner of the external accounting firm; or

(2) to have any financial interest in the external accounting firm, whichever is later.

Article 5 The term of office of members of the Committee shall be the same as that of the directors. A member of the Committee may serve consective terms if re-elected upon the expiry of his/her term of office. If any member ceases to be a director of the Company during his/her term of office, he/she shall automatically lose the qualification as a member of the Committee. In the event that the number of members of the Committee falls below the quorum provided herein, the board of directors shall fill the vacancy in accordance with these terms of reference.

Where the composition of the Committee fails to meet the requirements specified in Article 3 hereof, the board of directors shall promptly explain the details of and reasons for such non-compliance by means of announcement according to the requirements of the securities regulatory authorities in the place where the shares of the Company are listed, and shall satisfy the requirements within three months from the date of non-compliance with the above requirements.

Article 6 The chairman of the Committee shall be in charge of the work of the Committee, whose principal duties are as follows:

(1) to organize and ensure the efficient operation and performance of duties of the Committee;

(2) to convene and chair meetings of the Committee;

(3) to ensure that all members of the Committee know clearly about the matters deliberated by the Committee and have access to complete and reliable information;

(4) to ensure each matter deliberated by the Committee be resolved with clear and concise conclusion;

(5) to arrange other affairs conferred by the board of directors;

(6) to perform other functions and duties as stipulated herein.

In the event that the chairman of the Committee is absent or fails to discharge his/her duties, a member of the Committee, who shall be an independent director, may be jointly elected by other members to perform the duties of the chairman.

Article 7 Members of the Committee shall have the professional knowledge, experience and skills commensurate with their duties in the Committee. Their principal duties are as follows:

(1) to propose topics for discussion at meetings of the Committee;

(2) to attend the meetings of the Committee on time and to express opinions on the matters deliberated or discussed at the meetings and exercise their voting rights;

(3) to attend relevant meetings of the Company, and to understand and obtain relevant information of the Company;

(4) to perform other functions and duties as stipulated herein.

Article 8 Any member of the Committee may be replaced or removed upon approval of the board of directors if any one of the following situations occurs:

(1) the member tenders his/her resignation in writing;

(2) the member is involved in gross misconduct or in violation of laws and regulations, the Articles of Association and these terms of reference during his/her term of office;

(3) other circumstances which the board of directors considers that the member is not fit to take up the position as a member of the Committee.

CHAPTER 3 DUTIES

Article 9 The Committee shall exercise the functions and powers of the supervisory committee as stipulated in the Company Law, and shall be mainly responsible for, among other things, reviewing the Company's financial information and its disclosure, supervising and evaluating the Company's external audit and internal control, and coordinating the Company's internal and external audit, with the specific duties as follows:

(1) to review the disclosure of the Company's accounting information and its major issues, to review the critical accounting policies and their implementation, to monitor the implementation of the Company's major financial decisions and annual budget, to review the Company's financial accounting reports, to comment on the authenticity, accuracy and completeness of the financial accounting reports, with a focus on significant accounting and auditing matters of the Company's financial accounting reports and special attention to the possibility of fraud, malpractice and material misstatement related to financial accounting reports, and to supervise the rectification of problems discovered in the financial accounting reports; to monitor the effectiveness of the implementation by the management of the financial reporting procedures; to monitor the completeness of the Company's financial statements, annual reports, accounts, half-yearly reports and quarterly reports, and to review the significant opinions regarding financial reporting contained in the statements and reports.

Before submitting the relevant statements and reports to the board of directors, the Committee shall particularly review the following matters:

1. any changes in accounting policies and practices;

2. matters related to material judgements;

3. material adjustments resulting from the audit;

4. the going concern assumption of the enterprise and any qualified opinions;

5. whether it is in compliance with accounting standards;

6. whether it is in compliance with the Hong Kong Listing Rules and legal requirements regarding financial reporting.

The Committee shall liaise with the board of directors and senior management in regard to the above matters and meet, at least twice a year, with the accounting firm undertaking the audit of the Company's periodic reports (the "Accounting Firm"). The Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and shall give due consideration to any matters raised by the financial staff of the Company, the person in charge of internal audit functions or the Accounting Firm.

(2) to monitor the annual audit and make judgment on the truthfulness, accuracy and completeness of the information contained in the audited financial reports, and to submit it to the board of directors for review.

(3) to conduct connected transactions control and daily management under the leadership of the board of directors, and to be primarily responsible for the analysis and identification of connected persons, as well as the organization of compliance review of connected transactions and the decision-making for major connected transactions.

(4) to review and evaluate the Company's internal control:

1. to review and evaluate the soundness and effectiveness of the financial control, internal control and risk management systems, mechanisms and regimes of the Company;

2. to review and evaluate the implementation of internal control rules and regulations by the departments and branches of the Company. The evaluation results will serve as important reference and basis for the Company to conduct an annual performance assessment on them;

3. to discuss with the business management to ensure that effective risk management and internal control systems are in place. The discussion shall include the adequacy of the Company's resources in accounting and financial reporting, qualification and experience of employees, training received by employees and the relevant budget;

4. to study the important investigation results of risk management and internal control issues and the feedback of the management on the investigation results proactively or under the instructions of the board of directors;

5. to coordinate the internal audit department and the Accounting Firm, and to ensure the internal audit department has adequate resources and appropriate status to inspect and supervise the effect of internal audit;

6. to review the financial and accounting policies and practices of the Company (including its controlling subsidiaries);

7. to review the Explanatory Statement on Audit provided by the Accounting Firm to the management, any material enquiry raised by the Accounting Firm to the management on accounting records, financial accounts or monitoring system, and the feedback of the management;

8. to ensure the prompt reply by the board of directors to the issues raised in the Explanatory Statement on Audit provided by the Accounting Firm to the management;

9. to report to the board of directors on matters as stipulated in the Hong Kong Listing Rules;

10. to review the Company's system and arrangement for employees to anonymously report any potential irregularities in its financial reporting, internal control and other aspects. The Committee shall ensure that appropriate arrangements are in place to allow the Company to carry out fair and independent investigations and appropriate actions on such matters;

11. to coordinate the relationship between the Company and the Accounting Firm.

(5) to consider the Company's internal audit development plans and annual audit plans.

(6) to review, monitor and evaluate the Company's internal audit work:

1. to guide and supervise the establishment and implementation of the Company's internal audit system;

2. to review the Company's annual internal audit work plan;

3. to supervise the implementation of the Company's internal audit plan;

4. to guide the effective operation of the internal audit department. The Company's internal audit department shall report its work to the Committee. All types of audit reports, rectification plans for audit issues and the status of rectifications submitted by the internal audit department to the management shall also be submitted to the Committee at the same time;

5. to report to the board of directors on the progress and quality of internal audit work, as well as any significant issues identified;

6. to coordinate the relationship between the internal audit department and external auditors, such as the Accounting Firm and national audit institutions;

7. to inspect and evaluate the work procedures and effectiveness of the internal audit department, and to participate in the assessment of the person in charge of internal audit.

(7) to receive reports on internal audit operations and management system, the annual budget and internal organizational structure plans, as well as the composition of the dedicated audit team of the audit department, and the appointment and assessment of the general manager and deputy general manager of the audit department.

(8) to review the Company's internal audit reports, and relevant reports and materials.

(9) to make recommendations to the board of directors on the appointment, re-appointment and removal of the Accounting Firm, to approve the remuneration and the terms of appointment of the Accounting Firm, and to deal with any issues regarding the resignation or removal of the Accounting Firm.

(10) to supervise the professional conduct of the Accounting Firm, ensuring that the Accounting Firm acts with honesty, trustworthiness and diligence, strictly complies with business rules and industry self-regulatory regulations, rigorously implements the internal control system, conducts inspection and verification of the financial accounting reports of the Company, fulfills special duty of care, and prudently provides professional opinions, and to review and monitor the independence and objectivity of the Accounting Firm and the effectiveness of the audit procedures in accordance with applicable standards. The Committee shall discuss the nature and scope of the audit, and the related reporting responsibilities with the Accounting Firm before the commencement of the audit.

(11) to develop and implement the policy on engaging external auditor to provide non-audit services. The external auditor includes any entity that is under common control, ownership or management with the Accounting Firm undertaking the audit of the Company's periodic reports, or any entity that a reasonable and informed third party, possessing all relevant information, would reasonably conclude to be part of the domestic or international operations of the Accounting Firm responsible for auditing the Company's periodic reports. The Committee shall report and make recommendations to the board of directors on any matters where action or improvement is needed.

(12) to monitor the Company to ensure that the internal audit department has sufficient resources, and to coordinate the communication between the internal audit department and the Accounting Firm.

(13) to oversee the implementation of the rectification measures by the business management in response to the audit opinions, and to monitor the implementation of the audit conclusions by the business management.

(14) to lead the internal audit department in collecting, summarizing and looking into the materials relating to the responsibility of material mistakes in the information disclosure of the annual reports, to investigate and verify the same, and to provide relevant solutions for submission to the board of directors for consideration and approval before implementation.

(15) to inspect the Company's finances in accordance with the law, to supervise the legality and compliance of the performance of duties by directors and senior management, to exercise other powers as stipulated in the Articles of Association, and to safeguard the legitimate rights and interests of the Company and its shareholders. If the Committee finds that a director or senior management officer has violated laws and regulations, relevant requirements of the stock exchange(s) in the place(s) where the Company's shares are listed or the Articles of Association, it shall inform the board of directors or report to the shareholders' meeting, and disclose it in a timely manner, or it may report directly to the securities regulatory authorities in the place(s) where the Company's shares are listed. In the course of performing its supervisory duties, the Committee may propose the removal of directors and senior management officers who violate laws and regulations, relevant requirements of the stock exchange(s) in the place(s) where the Company's shares are listed, the Articles of Association or resolutions of the shareholders' meeting.

(16) other matters as authorized by the board of directors.

The Committee may make proposals to the board of directors in respect of any matters falling within the scope of the above duties.

Article 10 The following matters shall be submitted to the board of directors for deliberation after the consent from a majority of all members of the Committee is obtained:

1. to disclose financial information contained in the financial accounting reports and periodic reports, and the internal control evaluation report;

2. to engage or dismiss the Accounting Firm undertaking the audit of the Company's periodic reports;

3. to appoint or dismiss the person in charge of finance of the Company;

4. to change accounting policies and accounting estimates or to correct significant accounting errors for reasons other than changes in accounting standards;

5. other matters prescribed by laws, administrative regulations, securities regulatory authorities in the place(s) where the Company's shares are listed and the Articles of Association.

Article 11 The business management and departments of the Company shall assist and coordinate with the Committee, promptly and accurately provide the information necessary for the Committee to perform its responsibilities, and respond to the inquiries raised by the Committee on relevant matters.

Article 12 The Committee may conduct investigations on major internal control, financial information and internal audit issues of the Company.

The Committee shall study the relevant investigation and feedbacks from the management or relevant personnel, and report to the board of directors the investigation results and make suggestions.

Article 13 The Committee shall follow up and oversee the implementation of resolutions approved by the shareholders' meetings and board meetings that fall within the scope of its duties.

Article 14 The Committee shall, in accordance with its duties, submit relevant materials and information in form of reports, proposals and summaries to the board of directors for consideration and decision-making.

The Committee shall report to the chairman of the board of directors the relevant materials and information during the adjournment of the board of directors.

Article 15 The Committee shall submit the annual work report to the board of directors.

Article 16 The Committee may engage intermediaries to provide professional advices for it or organize and assign the departments or employees of the Company to conduct a special research at the expense of the Company.

CHAPTER 4 RULES OF PROCEDURE

Article 17 The Committee shall convene at least one meeting each quarter, and an extraordinary meeting may be convened when proposed by two or more members, or when the convener considers necessary. The Committee may convene meetings by way of physical meeting or through communication tools.

Article 18 The meeting notice shall be issued 5 days before the date of the meeting, unless waived with the consent of at least two-thirds of the members of the Committee.

Article 19 The meeting notice shall contain the following details:

(1) date and venue of the meeting;

(2) duration of the meeting;

(3) agenda and relevant materials of the meeting;

(4) date of the notice.

Article 20 The meeting notice may be delivered by hand or sent by fax, registered mail or email.

Article 21 Upon approval by the chairman of the Committee, interim proposals may be added to the agenda of the meeting after the issue of the meeting notice, and relevant materials shall be served as soon as possible.

Article 22 A meeting of the Committee shall be convened only if over two-thirds of all its members are present. The Committee may invite other parties who are not the Committee members to attend the meeting as and when necessary.

Article 23 Members of the Committee shall attend meetings in person and shall not appoint others to attend on their behalf.

Article 24 The Committee may request briefings or comments from the relevant departments and personnel associated with the subject matter of the meeting. The relevant departments and personnel shall attend such meeting.

Article 25 The Committee shall adopt the abstention system.

Where a member of the Committee is involved in the matter being discussed at the meeting of the Committee, he/she shall be abstained from attending such meeting. If the meeting is convened to discuss a number of matters, such member shall only be abstained from the discussion of the matter he/she is involved.

If a resolution cannot be made due to the abstention of members, the Committee shall submit such matter to the board of directors for consideration.

Article 26 Any voting at the meetings of the Committee shall be taken by poll. Each member shall have one vote. A resolution of the meeting of the Committee shall be passed by more than half of all its members.

Article 27 A resolution of the meeting of the Committee shall be formed upon voting. The resolution shall contain the following details:

(1) the date, venue and name of the convener of the meeting;

(2) the number of members who shall attend and actual number of attendees of the meeting;

(3) the legal validity of the proceedings and resolutions of the meeting;

(4) the contents of the proposals considered and voted at the meeting and the voting results;

(5) other matters that shall be explained and recorded in the resolution.

The resolution shall be signed by all members present at such meeting. The resolution and the relevant proposals shall be submitted to the board of directors in writing and, where necessary, delivered to the relevant departments of the Company.

Article 28 The Committee shall keep minutes of the meetings, which shall record the details of the matters considered and resolutions formed at the meetings of the Committee, including any concerns or dissenting opinions raised by members of the Committee. Subsequent to the conclusion of a meeting, the draft of the meeting minutes and the final version shall be delivered to the members within a reasonable period of time, with the draft for their comments and the final version for record purpose. The meeting minutes shall be signed by the members of the Committee present at the meeting and the recorder of the meeting.

Article 29 The resolutions and minutes of the meetings of the Committee shall be important documents, information and files of the Committee and shall be kept by the secretary to the board of directors. During the subsistence of the Company, these documents, information and files shall be kept for not less than 20 years. The meeting minutes of the Committee shall be available for inspection by any director upon request.

Article 30 Members of the Committee, persons attending the meeting and other participants of the meeting shall undertake confidentiality obligations for all items discussed at the meeting. Relevant information shall not be disclosed without permission. In case of any breach of confidentiality, the concerned person shall bear legal liabilities in accordance with regulations.

CHAPTER 5 COORDINATION AND COMMUNICATION

Article 31 The office of the board of directors is the working unit of the Committee, and its major duties shall include the followings:

(1) to manage the daily operation and liaison of the Committee;

(2) to arrange the Committee meetings and prepare meeting minutes;

(3) to collect and prepare relevant materials for the Committee meetings;

(4) according to the requirements of the members of the Committee, to coordinate relevant departments of the Company to arrange investigation and research required by the members to perform their duties;

(5) to assist members in acquiring relevant information and coordinate relevant departments of the Company to provide related materials;

(6) to coordinate the works between the Committee and other committees of the board of directors.

Article 32 The departments of the Company, such as the internal audit department, financial management department, legal and compliance department, and risk management department, are the supporting departments for the decision-making of the Committee. They shall provide related materials, draft relevant documents and make recommendations according to the requirements of the Committee.

Article 33 The Committee shall communicate and cooperate with other committees.

CHAPTER 6 WORKING PROCEDURES FOR ANNUAL REPORT

Article 34 In the course of preparation and disclosure of annual reports of the Company, the Committee shall effectively perform its duties and obligations with diligence and dutifulness.

Article 35 After the end of each fiscal year, the business management of the Company shall fully report to each member of the Committee the business operation and management and the progress of significant events of the Company during the reporting year.

Article 36 The Committee shall review the financial and accounting statements prepared by the Company and form written opinions before the arrival of the certified public accountants responsible for an annual audit.

For the purpose of this section, an accounting firm refers to the Accounting Firm undertaking the audit of the Company's periodic reports.

Article 37 The Committee shall enhance communication with the Accounting Firm in writing before, during and after the audit.

(1) It shall negotiate with the certified public accountants responsible for the annual audit about the time schedule for such audit before their arrival;

(2) It shall communicate with the certified public accountants responsible for the annual audit in writing on the opinions of their preliminary audit and review the preliminarily audited financial and accounting statements of the Company before the convening of the board meeting for review of the annual report;

(3) It shall supervise the Accounting Firm to ensure the submission of its audit report within the prescribed period, and record the manner and frequency of supervision and feedback from the Accounting Firm in writing;

(4) The Committee shall vote on the audited annual financial and accounting statements, form a resolution and then submit it to the board of directors of the Company for examination;

(5) Upon completion of the annual audit, the Committee shall make a comprehensive and objective evaluation on the audit performed by the Accounting Firm for the year and its work quality. If the Committee gives an affirmative opinion and re-appoints the Accounting Firm for the annual audit for next year, the proposal for reappointment shall be submitted to the board of directors and shareholders' meeting for approval. In the event of negative opinion, the Accounting Firm shall be replaced. When the Committee appoints another accounting firm for the annual audit for the next year, it shall form an opinion after thorough understanding and assessment of the former accounting firm and the proposed replacement by means of written communication and submit such opinion to the board of directors and shareholders' meeting for consideration;

(6) When it is indeed necessary to replace the Accounting Firm during an audit period, the Committee shall meet the former accounting firm and the proposed replacement, reasonably assess the quality of work of these firms, determine whether the replacement is justifiable, and submit these opinions to the board of directors and shareholders' meeting for consideration. The replaced accounting firm shall be notified to attend the shareholders' meeting to present its view at the meeting.

Article 38 In the course of preparation of annual reports, the Committee shall engage in or confirm other matters as required by relevant regulatory authorities.

CHAPTER 7 SUPPLEMENTARY PROVISIONS

Article 39 Unless otherwise specified, the terms used herein shall have the same meaning ascribed thereto under the Articles of Association.

Article 40 In the event that any matters are not covered by these terms of reference or any of these terms of reference are inconsistent with the relevant national laws and regulations, the listing rules of the place where the shares of the Company are listed and the Articles of Association, such laws and regulations, listing rules and the Articles of Association shall prevail.

Article 41 Amendments to these terms of reference shall be proposed by the Committee and submitted to the board of directors for approval.

Article 42 These terms of reference shall be interpreted by the board of directors.

Article 43 These terms of reference shall become effective from the date of consideration and approval by the board of directors.

The original terms of reference of the Audit Committee under the board of directors of the Company shall lapse automatically on the date when these terms of reference become effective.