

Yue Yuen Industrial (Holdings) Ltd.

Audit Committee - Terms of Reference

The board (the “Board”) of Yue Yuen Industrial (Holdings) Ltd. (the “Company”) hereby constitutes and establishes an Audit Committee with authority, responsibility, and specific duties as described below. The reference to the “Group” hereinafter shall mean the Company and its subsidiaries.

Membership

The Audit Committee shall be appointed by the Board. It shall consist of not less than 3 members appointed from amongst the 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 as required under rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The majority of the Audit Committee members must be independent non-executive directors. A quorum shall be 2 members and one of them must be an independent non-executive director. The chairman of the Audit Committee shall be appointed by the Board and must be an independent non-executive director.

A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Company’s Audit Committee for a period of 1 year commencing on the date of his ceasing:

- (a) to be a partner of the firm; or
- (b) to have any financial interest in the firm,

whichever is the later.

Authority

The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate as requested by members of the Audit Committee. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice as necessary to assist the Audit Committee.

The Audit Committee shall report to the Board any suspected frauds or irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention.

Responsibility

The Audit Committee is to serve as a focal point for communication between other directors, the external auditors, the internal auditors and the Company's management as their duties relate to financial and other reporting, internal controls, and the external and internal audits (include other matters the Board deems necessary). The Audit Committee is to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, by satisfying themselves as to the effectiveness of the company's internal controls and as to the sufficiency of the external and internal audits.

Meetings

The Audit Committee should meet not less than twice per year. Additional meetings should be held as the work of the Audit Committee demands.

Attendance

As necessary and desirable, the Chairman may request that members of management, the head of internal audit and representatives of the external auditors be present at meetings of the Audit Committee. At least once a year the Audit Committee shall meet with the external auditors without executive Board members present.

Minutes

Full minutes of Audit Committee meetings should be kept by a duly appointed secretary of the meeting (who should normally be the company secretary). Draft and final versions of minutes of the Audit Committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

Specific Duties

1. Relationship with the Company's Auditors

The Audit Committee is:-

- (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 any questions of resignation or dismissal of that auditor; (Note: Rule 13.51(4) of the Listing Rules 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.)

- (b) 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 review and discuss with the auditor the nature and scope of the audit (including the engagement letter) and reporting obligations before the audit commences. The Audit Committee's review should include an understanding from the external auditors of the factors considered by them in determining their audit scope. The external auditors' fee is to be negotiated with management, and annually analysed for the Audit Committee's review;
- (c) to review the extent of non-audit services provided by the external auditors in relation to their independence and 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;
- (d) to consider the performance of the external auditors;
- (e) to review with the Company's management, external auditors and internal auditors, the adequacy of the Company's policies and procedures regarding internal controls;
- (f) to evaluate the cooperation received by the external auditors, including their access to all requested records, data and information. Also obtain the comments of management regarding the responsiveness of the external auditors to the Company's needs. Inquire of the external auditors as to whether there have been any disagreements with management which if not satisfactorily resolved would result in the issue of a qualified report on the Company's financial statements;
- (g) Discuss with the external auditors any relevant recommendations arising from audit. Review the draft management letter including management's responses to the points raised;
- (h) Review the scope and results of internal audit procedures;

- (i) Discuss with management the scope and quality of systems of internal control.

2. Review of Financial Information of the Company

The Audit Committee is :-

- (a) to have familiarity, through the individual efforts of its members, with the financial reporting principles and practices applied by the Company in preparing its financial statements;
- (b) 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 Audit Committee should focus particularly on:-
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from 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;
- (c) In regard to paragraph 2(b) above:-
 - (i) members of the Audit Committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's auditors; and
 - (ii) the Audit 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;

3. Oversight of the Company's Financial Reporting System and Internal Control Procedures

The Audit Committee is:-

- (a) to review the Company's financial controls, internal control and risk management systems;
- (b) 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;
- (c) 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;
- (d) 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;
- (e) to review the Group's financial and accounting policies and practices;
- (f) 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;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (h) to report to the Board on the matters set out this Terms of Reference; and
- (i) to consider other topics, as defined by the Board.

4. Others

The Audit Committee is to:-

- (a) appraise the Board of significant developments in the course of performing the above duties;
- (b) recommend to the Board any appropriate extensions or changes in the duties of the Audit Committee;

- (c) review the findings of internal investigations into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations; and
- (d) report to the Board on a regular basis. At least annually, the Audit Committee should present a report to the Board which addresses the work and findings of the Audit Committee during the year.