

SHANDONG FENGXIANG CO., LTD.*
山東鳳祥股份有限公司

**Terms of Reference for the Audit Committee
of the Board of Directors**

Chapter 1 General

Article 1 To regulate and enhance the decision-making mechanism of the board of directors (the “Board”) of Shandong Fengxiang Co., Ltd.* (the “Company”), to ensure an effective supervision of the Board on the management, and to improve the corporate governance structure of the Company, the Company has established the audit committee (the “Committee”) and formulated these terms of reference in accordance with local and overseas supervision regulations for listed companies, including the Company Law of the PRC, the Securities Law of the PRC, the Code of Corporate Governance for Listed Companies, the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, A Guide for Effective Audit Committees published by Hong Kong Institute of Certified Public Accountants and the Articles of Association of Shandong Fengxiang Co., Ltd.* (the “Articles of Association”).

Article 2 As a specialized body established by the Board in accordance with the Articles of Association, the Committee shall, within its authorities, assist the Board in carrying out relevant works. The main duties of the Committee are to supervise, review and evaluate the internal control, financial report and internal audit of the Company and to deal with the external auditors of the Company. The Committee shall be accountable to the Board.

Chapter 2 Composition

Article 3 The audit committee shall comprise at least three directors, all of whom shall be non-executive directors. At least one of the members of the Committee shall be an independent non-executive director with applicable professional qualifications recognized by the listing rules of the stock exchange where the shares of the Company are listed or applicable accounting or relevant financial management expertise. A majority of members of the Committee shall be independent non-executive directors.

Article 4 The members and chairman of the audit committee shall be nominated by the chairman of the Board, more than half of the independent non-executive directors or more than one-third of all directors for election by the Board.

Article 5 The audit committee shall have one chairman who shall be an independent non-executive director and be in charge of the work of the audit committee.

Article 6 The term of office of the members of the audit committee shall be consistent with the term of the directors. A member of the Committee may serve consecutive terms if re-elected upon the expiry of his/her term of office. If any member ceases to be a director of the Company or any member who shall be an independent non-executive director ceases to have the independence as set out in the Articles of Association during his/her term of office, his/her membership in the Committee shall lapse automatically, and the vacancy shall be filled up by the Board in accordance with the Article 3 to Article 5 above.

Article 7 The audit committee of the Board shall have a working team as its regular working body for the liaison of routine work and organization of meetings. The audit committee shall appoint a secretary for its meetings.

Chapter 3 Duties

Article 8 The members of the audit committee shall have the professional knowledge, experience and skills necessary for the performance of their duties. The principle duties of the members are as follows:

- (I) to make recommendations on the appointment, re-appointment and removal of the external auditors;
- (II) to review and monitor the independence and objectiveness of the external auditors and the effectiveness of the audit procedure in accordance with applicable standards; the Committee shall discuss the nature and scope of audit and the reporting requirements with the auditors before the commencement of audit;
- (III) to review the financial information of the Company and its disclosure;
- (IV) to oversee the financial reporting system and internal control procedure of the Company; and
- (V) to enhance the communication between internal auditors and external auditors.

Article 9 Other duties of the audit committee are as follows:

- (1) to ensure the integrity of the financial statements, annual report, accounts, interim reports and quarterly reports (if any) of the Company and to review the significant opinions regarding the financial reporting as set out in financial statements and reports; to monitor the annual audit and to advise the Board on the truthfulness, accuracy and integrity of the audited financial statements;

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

- 1. any changes in accounting policies and practices;
- 2. matters involving material judgments;
- 3. material adjustments resulting from the audit;

4. the going concern assumptions and any qualified opinions;
5. compliance with accounting standards;
6. compliance with legal requirements and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to financial reporting;

The Committee shall liaise with the Board and the senior management for above-mentioned matters. The Committee shall meet the external audit firm at least twice a year. The Committee shall consider any significant or unusual matters that are, or shall be, reflected in financial reports and accounts and shall also properly consider any matters brought up by financial officers and internal audit manager of the Company and external audit firm;

- (2) to monitor the financial reporting system of the Company and to review and evaluate the internal control of the Company, including:
 1. to review the financial control, internal control and risk management systems, rules and practices of the Company;
 2. to discuss with the management in relation to the risk management and internal control system, and ensure an effective internal control system is in place. The discussion shall cover that whether the company has adequate accounting and financial reporting resources, whether its personnel possess adequate qualifications and experience, staff training programmes and whether budget is sufficient;
 3. to study the important findings of the investigation in risk management and internal control and feedbacks of the management on the findings on its own initiative or under the instruction of the Board;
 4. to review the financial and accounting policies and practices of the Company (including its holding subsidiaries);
 5. to review the audit notes provided by external auditors, any material enquiry raised by auditors on accounting records, financial statements or control system and feedbacks of the management;
 6. to ensure the prompt reply by the Board on issues raised in the audit notes provided by the external auditors;
 7. the audit committee shall have procedures to deal with the following matters:
 - (1) to receive, file and deal with complaints on accounting, internal control or audit known to the Company;
 - (2) to receive and deal with open or anonymous complaints on accounting and audit. Investigation of anonymous complainant shall be kept confidential;

- (3) to coordinate the works of internal audit and external audit firm; to ensure the internal audit department have the necessary resources and power to perform its duties; to determine the internal audit plan and to consider the work report of audit department; and to examine and supervise the effectiveness of internal audit;
- (4) to comment on the audit fee payable to the independent auditors of the Company;
- (5) to supervise the performance of the external audit firm. The Committee shall discuss the nature and scope of audit and the reporting requirements with the auditors before the commencement of audit;
- (6) to devise and implement the policy on engaging external audit firm to provide non-audit services when necessary. The audit committee shall report and make recommendations to the Board if any actions or remedial measures are considered necessary;
- (7) other matters as authorized by the Board;
- (8) to comply with the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and report to the Board.

The Committee may make proposals to the Board within the scope of its duties.

Article 10 The audit committee shall be accountable to the Board and proposals of the Committee shall be submitted to the Board for approval. The audit committee shall support the supervisory committee to conduct audit exercise.

The audit committee shall provide the Board with its discussion, material and information in the form of reports, proposals and conclusions for study and consideration.

Chapter 4 Decision-making Procedures

Article 11 The working team under the Committee shall facilitate the decision-making of the Committee and preparing the following information of the Company in written form:

- (I) the financial reports of the Company;
- (II) the work reports of internal audit department and external audit firm;
- (III) the internal control system of the Company;
- (IV) other relevant matters.

Article 12 The audit committee shall provide written recommendations on the following matters of the Company to the Board for discussion:

- (I) the objectiveness and truthfulness of the financial reports of the Company;
- (II) the performance of external audit firm and the appointment and removal of external audit firm;
- (III) the effectiveness of the internal audit system of the Company;
- (IV) other relevant matters.

Chapter 5 Rules of Procedures

Article 13 The audit committee shall convene at least two meetings each year, and a notice of meeting shall be given to all members seven days before the date of the meeting. The meeting shall be convened and chaired by the chairman of the Committee. In the event that the chairman of the Committee fails to attend the meeting, he may appoint another member who is an independent non-executive director to convene and chair the meeting.

Article 14 The quorum of a meeting of the audit committee shall be more than two-thirds of the members (including proxies appointed in writing). Each member shall have one vote. A resolution of the meeting shall be passed by more than half of the members.

Article 15 Voting at the meeting of the audit committee shall be taken by a show of hands. An extraordinary meeting may be convened in the form of vote by correspondence.

Article 16 The audit committee may invite other directors, supervisors, senior management members and other persons to attend its meetings when necessary.

Article 17 The audit committee may retain an intermediary institution to provide professional advice on its decision when necessary. Any reasonable costs incurred shall be borne by the Company.

Article 18 The convening, voting and passing of resolutions of a meeting of the audit committee shall comply with the applicable laws, regulations, the Articles of Association and these terms of reference.

Article 19 The audit committee shall keep minutes of its meetings. The draft and final versions of the minutes shall be delivered to all committee members within a reasonable period of time for comments and records respectively. The final version of the minutes shall be signed by committee members who attended the meeting. The minutes shall be kept by the secretary of the Company.

Article 20 The resolutions passed or comments given at the meetings of the audit committee shall be submitted to the Board in written form for consideration.

Article 21 All members of the Committee present at the meeting shall keep confidential all matters discussed at the meeting and shall not disclose the relevant information without authorization.

Chapter 6 Supplementary Provisions

Article 22 Unless otherwise specified, the terms used herein shall have the same meaning ascribed thereto under the Articles of Association.

Article 23 These terms of reference shall become effective from the date of deliberation and approval by the Board and the same applies to any amendments made.

Article 24 For any matters not contained herein or any discrepancies between these terms of reference and the relevant PRC laws, regulations, normative documents, relevant requirements of The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) and the provisions of the Articles of Association, the relevant PRC laws, regulations, normative documents, relevant requirements of the Hong Kong Stock Exchange and the provisions of the Articles of Association shall prevail.

Article 25 These terms of reference shall be formulated, amended and interpreted by the Board.

Shandong Fengxiang Co., Ltd.*
Board of Directors

* *For identification purpose only*

These Terms of Reference are prepared in Chinese. In case of any inconsistency between the Chinese version and the English version, the Chinese version shall prevail.