

TIANGONG INTERNATIONAL COMPANY LIMITED
(the “Company”)

TERMS OF REFERENCE
OF
AUDIT COMMITTEE

Membership

1. The audit committee (the “Committee”) shall consist of not less than three members appointed by the board of directors (the “Directors”) of the Company (the “Board”), all of whom shall be non-executive Directors and a majority of whom shall be independent non-executive Directors (including one independent non-executive Directors who has the 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”), as amended from time to time).
2. A former partner of the Company's existing auditing firm is prohibited from acting as a member of the Committee for a period of one 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.
3. The chairman of the Committee shall be appointed by the Board, who shall be an independent non-executive Director.

Frequency and proceedings of meetings

4. The Committee should meet at least twice per year. The chief financial officer, the head of internal audit and a representative of the external auditor shall normally attend the meetings. However, at least once a year the Committee shall meet with the external and internal auditors without executive Board members present. Additional meetings should be held as the work of the Committee demands.
5. In addition, the chairman of the Committee may convene additional meetings at his discretion.
6. The quorum for a meeting shall be two members.
7. Proceedings of meetings of the Committee shall be governed by the provisions of the Articles of Association of the Company.

Authority

8. The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.

9. The Committee shall report to the Board any suspected frauds and irregularities, failures of risk management or internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
10. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Committee will arrange for the Corporate Governance Report in the Annual Report of the Company to include an explanation of the Committee's recommendation and the reasons why the Board has taken a different view.
11. The Committee is to be provided with sufficient resources to perform its duties.

Responsibility

12. The Committee is to serve as a focal point for communication between other Directors, the external auditor and the internal auditor as regards their duties relating to financial and other reporting, risk management, internal controls, external and internal audits and such other matters as the Board determines from time to time.
13. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the risk management and internal controls of the Company and its subsidiaries (the "Group"), and as to the adequacy of the external and internal audits.

Duties, powers and functions

14. The Committee is to:
 - (a) be primarily responsible for making recommendations 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 its resignation or dismissal;
 - (b) review with the Group's management, external auditor and internal auditor, the adequacy of the Group's policies and procedures regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the Directors to be included in the annual accounts prior to endorsement by the Board;
 - (c) review and have familiarity with the financial and accounting reporting principles, policies and practices applied by the Group in preparing its financial statements;
 - (d) before audit commencement, review and monitor the external auditor's independence, objectivity, effectiveness of the audit process in accordance with applicable standards and the scope of the external audit, including the engagement letter. The Committee should discuss and understand the factors considered by the external auditor in determining the nature and scope of the audit and reporting obligations. The external audit fees are to be negotiated by management, and presented to the Committee for review and approval annually;
 - (e) monitor integrity of the Company's financial statements and the annual reports and accounts and interim financial reports and review significant financial reporting judgments contained in them prior to approval by the Board, with particular focus 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 and auditing standards; and
 - (vi) compliance with the requirements of the Listing Rules and legal requirements in relation to financial reporting;
- (f) with regard to (e) above:-
- (i) members of the Committee should liaise with the Board and senior management, and the Committee must meet, at least twice a year, with the Company's external auditor; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditor;
- (g) review the draft representation letter prior to approval by the Board;
- (h) evaluate the cooperation received by the external auditor, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditor to the Group's needs; inquire of the external auditor 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 Group's financial statements;
- (i) obtain from the external auditor annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and those for rotation of audit partners and staff;
- (j) discuss with the external auditor, at least annually, matters relating to its audit fees, and any issues or recommendations arising from the audit and any other matters the auditor may wish to raise (if necessary in the absence of management); consider all relationships between the Company and the external auditor (including non-audit services); and review the draft management letter (the "Management Letter") on audit questions or recommendations to be provided by the auditor to the management, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response to the points raised;
- (k) ensure that the Board will provide a timely response to issues raised in the external auditor's Management Letter;
- (l) review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;
- (m) ensure the engagement of the external auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the

external auditor due to their unique expertise in a particular area, the prior approval of the Committee is required. The Committee should ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee may consider:

- (i) whether the skills and experience of the external auditor make it a suitable supplier of non-audit services;
 - (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services;
 - (iii) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and
 - (iv) criteria for compensation for the individuals performing the audit;
- (n) develop and implement policy on engaging an 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;
- (o) discuss with management the scope and quality of systems of risk management and internal control and ensure that management has performed its duty to have effective risk management and internal control systems. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function;
- (p) apprise the Board of significant developments in the course of performing the above duties;
- (q) recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (r) 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 (including any suspected frauds or irregularities or failures of risk management or internal controls or infringements of laws, rules and regulations);
- (s) agree with the Board on the Company's policy on hiring employees or former employees of the external auditor and monitor the application of these policies. The Committee will consider whether as a result of such hiring there has been or appears to be any impairment of the auditor's judgment or independence for the audit;
- (t) review arrangements by which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and appropriate follow up action;

- (u) act as the key representative body for overseeing the Company's relations with the external auditor;
- (v) report to the Board on above matters;
- (w) consider other topics, as requested by the Board; and
- (x) make available these terms of reference, explaining its role and the authority delegated to it by the Board by including them on the Hong Kong Stock Exchange and Clearing Limited's website and the Company's website.

Reporting procedures

15. The company secretary of the Company or a nominee shall act as the secretary of the Committee. Full minutes of meetings should be kept by the secretary of the Committee. Draft and final versions of minutes of the meetings should be sent to all Committee members for their comment and records within a reasonable time after the meeting. All minutes shall record in sufficient details the matters considered, decisions reached or recommendations made and any concerns raised by any members including dissenting views.
16. The Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report to the Board on the findings and recommendations of the Committee, unless there are legal or regulatory restrictions on their ability to do so.

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