PATEO CONNECT Technology (Shanghai) Corporation

Terms of Reference and Rules of Procedure of the Audit Committee

1. Members

1.1 The audit committee (the "**Audit Committee**") should be appointed by the board of directors of the Company (the "**Board**") and it should comprise a minimum of three members.

1.2 The members should comprise non-executive directors only. A majority of the members must be independent non-executive directors of the Company, and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**").

1.3 The chairperson of the Audit Committee must be appointed by the Board and must be an independent non-executive director.

1.4 A former partner of the external auditor currently responsible for auditing the Company's accounts shall be prohibited from serving as a member of the Audit Committee of the Company before a period of two years has lapsed since the later date on which he ceases: (1) to be a partner of the external auditor; or (2) to have any financial interest in the external auditor.

1.5 The term of office for a member of the Audit Committee shall be concurrent with the term of his/her directorship. A committee member may be re-elected for appointment upon the conclusion of his/her term of office. A committee member shall be automatically disqualified as such if during his/her term of office he/she ceases to be a director of the Company, and the Board shall make up the number of Committee members in accordance with these rules.

2. Secretary

2.1 The company secretary of the Company (the "**Company Secretary**") shall act as the secretary of the Audit Committee.

2.2 The Audit Committee may from time to time, appoint any other person with appropriate qualification and experience to act as the secretary of the Audit Committee.

3. Meetings

3.1 The Audit Committee shall meet at least once every quarter, and an extraordinary meeting may be convened upon the proposal of two or more members or when the chairman of the Audit Committee deems it necessary. The meetings of the Audit Committee shall be held with the attendance of not less than two-thirds of the members. The external auditors of the Company can call for a meeting if necessary.

3.2 Due notice should be given for any meeting, unless such notification is waived by all members of the Audit Committee. Notwithstanding the notification period, the attendance of the member of the Audit Committee at the meeting would be deemed as the waiver of the required notification period.

3.3 The quorum necessary for convening the meeting of the Audit Committee shall be two members of the Audit Committee, one of which shall be an independent non-executive director.

3.4 Meeting can be attended in person or via telephone or videoconferencing. The members of the Audit Committee can attend the meeting via telephone or any similar communication device (all persons attending such meeting should be able to hear from such member via such communication device).

3.5 Voting on resolutions of the Audit Committee shall be conducted on a one-member-one-vote basis. Resolutions of the Audit Committee shall be passed by more than half of the votes.

3.6 Resolutions signed in writing by all members of the Audit Committee are valid, as if they were passed in a meeting of the Audit Committee duly convened and held.

3.7 Resolutions of the Audit Committee shall be recorded in the minutes as required, and the minutes shall be signed by the members of the Audit Committee present at the meeting. Full minutes of the Audit Committee meeting shall be kept by the Company Secretary or the duly appointed secretary of the meeting and be available for review by the directors. Minutes of such meetings shall be made available for inspection by any director at all reasonable hours upon reasonable notice. The minutes shall record in sufficient detail the matters considered and decisions reached and shall include any concerns raised or objections expressed by the directors.

4. Attendance

4.1 Meetings between the representative of the Company's external auditors and the Audit Committee shall be held at least twice a year without the attendance of any executive directors except those invited by the Audit Committee.

4.2 Upon invitation from the Audit Committee, the following person may attend the meeting: (i) the head of internal auditor or in his/her absence, a representative of internal auditor; (ii) the senior financial manager (or equivalent); and (iii) other members of the Board.

4.3 Only the members of the Audit Committee can vote in the meeting.

5. Annual General Meeting

5.1 The chairman of the Audit Committee or in his or her absence, another member of the Audit Committee, who shall be an independent non-executive director, shall attend the annual general meetings of the Company and respond to the enquiry from the shareholders in respect of the activities of the Audit Committee and their responsibilities.

6. Duties and Powers

The Audit Committee shall exercise the duties and powers of the supervisory committee as prescribed under the Company Law. The Audit Committee is responsible for reviewing and supervising the financial reporting, risk management and internal control systems of the Company and assisting the Board in performing its audit duties. The Audit Committee shall have the following duties and powers:

6.1 Relationship with the External Auditor of the Company

6.1.1 to 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 issues of resignation or dismissal of such external auditor;

6.1.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

6.1.3 to develop and implement policies on engaging an external auditor to supply non-audit services. For this purpose, an external auditor includes any entity that is under common control, ownership or management with the audit firm or any entity that an informed third party reasonably knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally; and

6.1.4 to report to the Board and make recommendations on any matters where action or improvement is needed.

6.2 Review of the Financial Information of the Company

6.2.1 to monitor the integrity of the Company's financial statements and the Company's annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports, and to review significant opinion on financial reporting set out therein. Prior to submitting the relevant statements and reports to the Board, the Audit Committee shall specifically review the following matters:

(a) any changes in accounting policies and practices;

(b) areas that involve major judgments;

(c) significant adjustments resulting from the audit;

(d) the going concern assumptions and any qualifications;

(e) compliance with accounting standards; and

(f) compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting.

6.2.2 regarding the paragraph 6.2.1 above:

(a) members of the Audit Committee shall liaise with the Board and senior management of the Company and the Audit Committee must meet, at least twice a year, with the Company's external auditor; and

(b) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function or compliance officer or external auditors.

6.3 Oversight of the Company's financial reporting system, risk management and internal control systems

6.3.1 to review the Company's financial controls, and unless expressly addressed by a separate risk committee of the Board, or by the Board itself, to review the Company's risk management and internal control systems;

6.3.2 to discuss the risk management and internal control systems with the management to ensure that the management has performed its duty to establish effective systems. Such discussion shall include the adequacy of resources, staff qualifications and experience, staff training programs and relevant budget of the Company's accounting and financial reporting function;

6.3.3 to consider major investigation findings on risk management and internal control matters and the management's response to these findings on its own initiative or as delegated by the Board;

6.3.4 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 its effectiveness;

6.3.5 to review the financial and accounting policies and practices of the Group;

6.3.6 to review the external auditor's Letter on Audit Findings to the management, any material queries raised by the external auditor to the management about accounting records, financial accounts or risk management or systems of control and the management's response;

6.3.7 to ensure that the Board will provide a timely response to the issues raised in the external auditor's Letter on Audit Findings to the management;

6.3.8 to act as the key representative body for overseeing the Company's relation with the external auditor;

6.3.9 to review arrangements where 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 Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

6.3.10 to report to the Board on the matters related to the code provisions under Appendix C1 to the Hong Kong Listing Rules;

6.3.11 to consider other topics, as defined by the Board; and

6.3.12 where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

6.4 Performing the Company's corporate governance procedures;

6.4.1 to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

6.4.2 to review and monitor the training and continuous professional development of the directors and senior management of the Company;

6.4.3 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

6.4.4 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and the directors of the Company;

6.4.5 to review the Company's compliance with the code provisions and disclosure in the Corporate Governance Report of the Company; and

6.4.6 responsibilities and powers prescribed by laws, administrative regulations, departmental rules, regulatory documents, the listing rules of the stock exchange of the place where the Company's shares are listed, the Articles of Association, and other matters authorized by the Board.

6.5 The Audit Committee shall perform the following duties in supervising and evaluating the Company's internal controls:

6.5.1 to assess the appropriateness of the design of the Company's internal control system;

6.5.2 to review the internal control self-assessment report;

6.5.3 to review the internal control audit report issued by the external auditor, and communicate with the external auditor on the issues identified and ways to improve them; and

6.5.4 to assess the results of internal control evaluations and audits and supervise the rectification of internal control deficiencies.

6.6 The Audit Committee shall coordinate the communication between the management, the internal audit department and relevant departments and the external auditor, and shall perform the following duties:

6.6.1 to coordinate the management's communication with the external auditor on significant audit issues; and

6.6.2 to coordinate the communication between the internal audit department and the external auditor and the cooperation with the external audit work.

7. Reporting

7.1 The Audit Committee shall report to the Board after each of its meetings.

8. Authority

8.1 The Audit Committee is authorized by the Board to inspect all accounts, account books and records of the Company.

8.2 In order to fulfill its duties, the Audit Committee is eligible to request the management of the Company to provide any data related to the financial status of the Company, its subsidiaries or affiliated companies.

8.3 The Audit Committee shall have access to independent professional advice at the Company's expense if necessary, to perform the responsibilities of the Audit Committee.

Note: The independent professional advice can be sought via the chief financial officer or the Company Secretary.

8.4 The Audit Committee shall be provided with sufficient resources to perform its duties.

Note: "Senior management" refers to the same persons referred to in the Company's annual report. It is the responsibility of the directors of the Company to determine which individual or individuals constitute senior management. Senior management may include the directors of subsidiaries of the Company, heads of divisions, departments or other operating units within the group as appropriate in the opinion of the Company's directors.

9. Supplementary Provisions

9.1 For any matters not covered in these Terms of Reference and Rules of Procedure, the relevant national laws, regulations and normative documents, the Hong Kong Listing Rules, and the Articles of Association shall apply. In the event that these Rules of Procedure contravene with the relevant laws, regulations and normative documents, the Hong Kong Listing Rules and other requirements of the Hong Kong securities regulatory authority or the Articles of Association, such relevant laws, regulations and normative documents, the Hong Kong Listing Rules, other requirements of the Hong Kong securities regulatory authority, or the Articles of Association shall prevail.

9.2 These Terms of Reference and Rules of Procedure shall be formulated and interpreted by the Board of the Company.

9.3 These Rules of Procedure shall take effect upon consideration and approval by the Board.