

Van Shung Chong Holdings Limited ("VSC")

AUDIT COMMITTEE

TERMS OF REFERENCE

(Updated on December 20, 2005)

The Board of Van Shung Chong Holdings Limited ("Board") hereby revised the Audit Committee with its authority, responsibility, and specific duties as described below.

Membership

The Audit Committee shall be appointed by the Board and comprise a minimum of three non-executive directors of which the majority must be independent non-executive directors 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 under rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A quorum shall be two members where practically feasible, the members shall rotate so that the Audit Committee regularly includes new members. The Audit Committee Chairman shall be appointed by the Board and must be an independent non-executive director.

A former partner of VSC's existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of 1 year commencing on the date of his/her 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 by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employees 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 and to secure the attendance of outsiders with relevant experience and expertise if it consider this necessary.

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.

The Audit Committee shall report to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

Responsibility

The Audit Committee is to serve as a focal point for communication between other directors, the external auditors, the internal audit manager and VSC's management as their duties relate to financial and other reporting, internal controls, and the external 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 VSC's internal controls and as to the sufficiency of the external audits.

Meetings

The Audit Committee should meet at least two times per year. Additional meetings should be held as the work of the Audit Committee and/or the external auditors demand.

Attendance

As necessary or desirable, the Chairman may request that members of management, the internal control manager and representatives of the external auditors be present at meetings of the Audit Committee. The Audit Committee shall at least once a year meet with the external auditors without executive Board members present. The company secretary shall be secretary of the Audit Committee.

Minutes

Minutes (draft and final versions) of each Audit Committee meeting are to be prepared and sent to the Audit Committee members and to the VSC directors who are not members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

Specific Duties

Relationship with the VSC's auditors

- (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 (based on the negotiation among external auditor and management, and annually analysed for the Audit Committee's review) and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- (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 discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) 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;

Review of financial information of VSC

- (d) To monitor integrity of financial statements of VSC and VSC's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing VSC'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;
- (e) In regard to (d) above:-
 - (i) members of the Audit Committee must liaise with the Board, senior management and the person appointed as VSC's qualified accountant and the Audit Committee must meet, at least once a year, with VSC'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 VSC's qualified accountant, compliance officer or auditors;
- (f) Evaluate the cooperation received by the external auditor, including their access to all requested records, data and information. Also, obtain the comments of management regarding the responsiveness of the external auditor to VSC'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 VSC's financial statements.

Oversight of VSC's financial reporting system and internal control procedures

- (g) To review VSC's financial controls, internal control and risk management systems;
- (h) To discuss with the management the system, scope and quality of internal control and ensure that management has discharged its duty to have an effective internal control system;

- (i) To consider any findings of major investigations into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (j) Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function, if any, is adequately resourced and has appropriate standing within VSC, and to review and monitor the effectiveness of the internal audit function;
- (k) To review the VSC and its subsidiaries' financial and accounting policies and practices;
- (l) To review the draft representation letter prior to approval by the Board;
- (m) To review the external auditor's management letter, any material queries, problems, reservations and relevant recommendations raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (n) To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) To appraise the Board of significant developments in the course of performing the above duties;
- (p) To recommend to the Board any appropriate extensions or changes in the duties of the Audit Committee;
- (q) To report to the Board on the matters set out in these terms of reference; and
- (r) To consider other topics, as defined by the Board.

Other Code Provisions on the Listing Rules

- (a) The Audit Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board.
- (b) Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, VSC 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.

- (c) The Audit Committee should be provided with sufficient resources to discharge its duties.