

FLEXSYSTEM HOLDINGS LIMITED

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

(adopted on 21 March 2012)

FlexSystem Holdings Limited

Terms of Reference for Audit Committee (adopted on 21 March 2012)

Audit Committee members:

Independent Non-Executive Directors

Mr. Liu Zhiquan
Dr. Chow Ka Ming, Jimmy
Dr. Wong Wing Lit

Chairman of the Audit Committee:

Mr. Liu Zhiquan

Secretary of the Audit Committee:

Mr. Tung Tat Chiu

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Constitution

1. The board of directors (the “**Board**”) of FlexSystem Holdings Limited (the “**Company**”) hereby resolves to establish an audit committee of the Board (the “**Audit Committee**”). The constitution of the Audit Committee shall comply with the requirements of the Rules Governing the Listing of Securities (the “**GEM Listing Rules**”) on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) from time to time.

Membership

2. The members of the Audit Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of whom should be independent non-executive directors. A quorum shall be two members, one of whom should be an independent non-executive director.
3. At least one of the members is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules.
4. A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of 1 year from the date of his ceasing (whichever is later):
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm.
5. The chairman of the Audit Committee shall be appointed by the Board and should be an independent non-executive director.

Attendance at meetings

6. Unless otherwise agreed by all the members of the Audit Committee, a meeting (the “**Meeting**”) of the Audit Committee shall be called by at least fourteen (14) days’ notice. A member may and, on the request of a member, the secretary shall, at any time summon a Meeting. Notice shall be given to each member, at least fourteen (14) days before the date of the meeting orally in person or in writing or by telephone or by telex or telegram or facsimile transmission at the telephone number or facsimile number or address from time to time notified to the secretary by such member or in such other means as the members may from time to time determine. Any notice given orally shall be confirmed in writing. Notice of meeting shall state the time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the members for the purposes of the Meeting.
7. Attendees shall normally include Audit Committee’s members, the Finance Director, the Head of Internal Audit (where an internal audit function exists), a representative of the

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external auditors and those with meaningful input to the Audit Committee's activities. However, at least once a year the Audit Committee shall meet with the external and internal auditors (if any) without executive Board members present.

8. Members of the Audit Committee may attend meetings of the Audit Committee either in person or through other electronic means of communication.
9. The company secretary shall be the secretary of the Audit Committee. The secretary of the Audit Committee or in his absence, his representative or any one member, shall be the secretary of the meetings of the Audit Committee.
10. Resolutions of the Audit Committee at any meeting shall be passed by a majority of votes of members if more than two members are present and by a unanimous vote if only two members are present.

Frequency of meetings

11. Meetings shall be held at least four times a year. The external auditors may request a meeting if they consider that one is necessary.

Authority

12. The Audit Committee is authorized by the Board to investigate activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.
13. The Audit Committee is authorized 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 considers this necessary.

Duties

14. The duties of the Audit Committee shall be:

Relationship with the Company's auditors

- (a) 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 questions of its resignation or dismissal;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;

- (c) to 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 Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company’s financial information

- (d) to monitor integrity of the Company’s financial statements and the annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these 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 GEM Listing Rules and legal requirements in relation to financial reporting;
- (e) Regarding (d) above:-
 - (i) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice 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 the report and accounts, 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, compliance officer or auditors;

Oversight of the Company’s financial reporting system and internal control procedures

- (f) to review the Company’s financial controls, internal control and risk management systems;
- (g) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion

should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;

- (h) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (i) to discuss problems and reservations arising from the interim and final audits or quarterly review, and any matters the auditor may wish to discuss (in the absence of management where necessary);
- (j) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (k) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (l) 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 its effectiveness;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to report to the Board on the matters in provision of terms of reference of the Audit Committee;
- (o) to review the group's financial and accounting policies and practices;
- (p) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, 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;
- (q) to act as the key representative body for overseeing the Company's relations with the external auditor; and
- (r) to consider other topics, as defined by the Board.

Reporting responsibility and procedures

15. 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.

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16. 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 the minutes of the Audit Committee meetings should be sent to all Audit Committee members for their comment and records within a reasonable time after the meeting.
17. The secretary or his representative shall circulate the minutes of meetings and reports of the Audit Committee to all members of the Board.

Publication of the terms of reference of the Audit Committee

18. The terms of reference of the Audit Committee will be posted on the websites of the Company and the Stock Exchange, and will be made available upon request.

Others

19. The chairman of the Audit Committee or in his absence, another member of the Audit Committee or failing this, his duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to questions at the annual general meeting on the Audit Committee's activities and their responsibilities.
20. The Audit Committee should be provided with sufficient resources to perform its duties.