

CHEVALIER INTERNATIONAL HOLDINGS LIMITED
TERMS OF REFERENCE OF THE AUDIT COMMITTEE

CONSTITUTION

The Audit Committee (the “Committee”) is established by the Board of Directors (the “Board”) of Chevalier International Holdings Limited (the “Company”).

MEMBERSHIP

The members of the Committee shall be from time to time appointed by the Board and shall comprise a minimum of 3 Non-Executive Directors. The majority of the members of the Committee shall be Independent Non-Executive Directors, at least one of whom has to be 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 (the “Listing Rules”). A quorum shall be two members.

The Chairman of the Committee shall be appointed by the Board and be an Independent Non-Executive Director.

ATTENDANCE AT MEETINGS

The Finance Controller, the Head of Internal Audit and representative of the external auditors shall normally attend meetings. Other Board members shall also have the right of attendance.

The Company Secretary shall be the secretary of the Committee. However, if the Company Secretary is not able to attend the meeting, he/she may appoint a person as his/her alternate to attend the meeting and perform his/her duties thereat.

FREQUENCY OF MEETINGS

Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider it is necessary.

AUTHORITY

The Committee is authorized by the Board to investigate any 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 Committee.

The 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.

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DUTIES, POWERS AND FUNCTIONS

The duties of the Committee shall be:

- a. to make recommendations to the Board on the appointment, re-appointment 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 standard;
- c. to discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and ensure co-ordination where more than one audit firm is involved;
- d. 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;
- e. to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- f. to monitor integrity of the Company's financial statements and annual report and accounts, interim report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, focusing particularly on:
 - i. any changes in accounting policies and practices;
 - ii. major judgmental areas;
 - iii. significant adjustments resulting from audit;
 - iv. the going concern assumption and any qualifications;
 - v. compliance with accounting standards; and
 - vi. compliance with the Listing Rules and legal requirements in relation to financial reporting;
- g. regarding (f) above, (i) to liaise with the Board and senior management and must meet, at least twice a year, with the Company's auditors; and (ii) to consider any significant or unusual items that are, or may need to be, reflected in the reports 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 (if any) or auditors;
- h. to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
- i. 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 and to ensure that the Board provide a timely response to the issues raised;

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- j. to review the company's statement on financial controls, internal control and risk management systems (where one is included in annual report) prior to endorsement by the Board;
- k. to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- l. 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;
- m. 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;
- n. to review the group's financial and accounting policies and practices;
- o. 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 and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- p. to act as the key representative body for overseeing the Company's relations with the external auditor;
- q. to report to the Board on the matters in the Corporate Governance Code set out in Appendix 14 of the Listing Rules; and
- r. to consider other topics as defined by the Board.

REPORTING PROCEDURES

The secretary of the Committee shall circulate the minutes of meetings and reports of the Committee to all members of the Board and such minutes should be kept by the Company Secretary.

The Committee shall report to the Board on a regular basis. At the next Board meeting following a Committee's meeting, the Committee's Chairman shall report the Committee's findings and recommendations to the Board.

ANNUAL GENERAL MEETING

The Chairman or in his absence, another member of the Committee, or failing this his duly appointed delegate shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

(Adopted by the Board in March 2012)