Honghua Group Limited

(Incorporated in the Cayman Islands with limited liability)
(the "**Company**")

Terms of Reference of the Audit Committee（the "Terms of Reference"）

1 Company Constitution

The Board of directors (the "Board") established a Committee subordinated to it known as the Audit Committee (the "Committee").

2 Membership

2.1 Members of the Committee shall be appointed by the Board of the Company. The Committee shall consist of at least three members and all of them shall be non-executive directors, one of whom must have the appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The majority of the members of the Committee must be independent non-executive directors. The quorum for a Committee meeting shall be at least two members.

2.2 The chairman of the Committee shall be an independent non-executive director appointed by the Board.

2.3 A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of one year commencing on the dates of his or her ceasing:

(a) to be a partner of the firm; or ；

(b) to have any financial interest in the firm, whichever is later.

2.4 The Company's secretary shall serve as the administrator of the Committee and is responsible for daily administration and meeting organization. The Audit Department of the Company shall serve as the executive division of the Committee.

3 The Secretary of the Committee

The Secretary of the Committee shall be the Company's secretary or other individuals appointed by the Committee from time to time.

4 Meeting

4.1 Qualified accountants of the Company and representatives from external auditors shall be entitled to attend the Committee meeting. The Committee should meet at least once a year with the Company’s Directors, senior management and external auditors. However, the Committee shall meet with the external auditors at least twice a year without the presence of Executive Directors.

4.2 The Committee shall convene meetings at least twice a year. The external auditors may request a meeting if they consider necessary.

4.3 Any provision in the Company’s Article of Association applicable to the convening and procedures of Board Meeting shall be deemed as having been adjusted to be applicable to the Committee Meeting.

4.4 Before the Committee meeting, the members shall report their interests in the issues to be discussed at the meeting. If any issue to be discussed would cause conflicts of interests with a member or any of his/her associates (see the “Listing Rules” for definition), the member shall not attend the meeting and shall have no vote.

5 Authority

5.1 The Committee has been authorized by the Board to conduct investigations within the scope of this Terms of Reference. It is also authorized to seek any information it requires from any employee or all employees of the Company or of its affiliated companies, and it is further authorized to require the above-mentioned personnel to attend the Committee Meeting, provide information and answer questions raised by the Committee.

5.2 The Committee is authorized to obtain external legal advices or other independent professional opinions and could involve external professionals with related experience, skills and expertise in Committee works if it considers necessary.

5.3 The Company secretary is authorized by the Board to seek any information required for the Committee members to perform their duties on behalf of these members.

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

6 Duties

The duties of the Committee are as follows:

6.1 Relationships with the Company's auditors

(a) to act as the key representative body for overseeing the Company's relationship with the external auditors. It is responsible for making recommendations on the appointment, re-appointment and dismissal of the external auditors, for approving the remuneration and the terms of engagement of the external auditors, and for handling issues of its resign and dismissal.

Note: According to clause 13.51(4) of the "Listing Rules", an announcement must be published for any change of the auditor, and any issues that must be noted by the shareholders shall also be specified in the announcement.

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the auditing procedure, and to discuss the nature and scope of the audit and reporting obligations before the audit commences; and

(c) to develop and implement policy on engaging an external auditor to supply non-auditing 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 shall report to the Board identifying and making recommendations on any matters where action or improvement is needed.

6.2 Review of the Company's Financial Information

(a) To monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing the Company's annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports before submission to the Board, the Committee should focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iv) significant adjustments resulting from audit;

(iv) the going concern assumptions and any reservation;

(v) compliance with accounting principle; and

(vi) compliance with the "Listing Rules" and other legal requirements in relation to financial reporting;

(b) In regard to (a) above:

(i) members of the Committee shall liaise with the Board, senior management as well as qualified accountants appointed by the Company. The Committee shall meet at least twice a year with the Company's auditors; and

(ii) the 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 the company's certified accountant, accountant, financial reporting personnel, compliance officer or auditors;

6.3 Oversight of the Company's Financial Reporting System and Internal Control Procedures

(a) to review the Company's financial control, internal control and risk management systems, including providing guidance on creating the reporting and auditing system for financial report, monitoring the handling, investigation and report of concerns regarding financial report raised by employees, as well as monitoring the settlement of these concerns.

(b) to discuss the internal control system with the management to ensure that the management has performed its duties to have an effective internal control system. The discussion shall include the adequacy of resources, qualifications and experience of staff, training programs and budget of the Company's accounting and financial reporting function;

(c) to consider major findings of investigation on internal control issues as delegated by the Board or on its own initiative and the management's response to these findings;

(d) where an internal audit function exists, to ensure coordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing; and to review and monitor its effectiveness;

(e) to review the accounting policies and practices in the group;

(f) to review the management letter issued by external auditors to the management and any material queries upon accounting records, financial accounts or control systems from auditors as well as the management's response.

(g) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(h) to report to the Board on the matters set out in this Terms of Reference; and

(i) to consider other matters raised by the Board from time to time;

6.4 the scope of authority and responsibility of the Committee shall be made public and its roles and the authorities conferred by the Board shall be explained;

7 Proposal

7.1 The above requirements can be met by implementing the following measures, which could be adopted by the Committee when necessary or applicable.

(a) the Committee may consider creating the following procedures to review or inspect the independence of the external auditor;

(i) to review all relationships between the Company and the auditor (whether the auditor is engaged for providing non-auditing services or not);

(ii) to request for information from the external auditors to review the policy and procedure it adopts to maintain their independence and to monitor the implementation of relevant rules, including the current rules on change of audit partners and employees;

(iii) to meet at least once a year with the auditor in the absence of the Company's management to discuss matters relating to its audit fees, any issues arising from the audit of financial statements and any issues the auditor may wish to raise.

(b) the Committee may consider formulating a policy on engaging employees or former employees of the audit institution together with the Board and monitoring the policy implementation. In addition, the Committee shall determine whether or not the capability of judgment or independence of the auditor is, or seems to be impaired;

(c) the Committee shall ensure that the independence and objectivity of the external auditor for providing non-auditing service won't be impaired. The following factors could be considered by the Committee when assessing the independence and objectivity of the auditor providing non-auditing services:

(i) whether or not the capability and experience of the auditor is sufficient and appropriate for providing non-auditing service;

(ii) whether or not prevention measures have been taken to ensure that the independence and objectivity of audit conducted by the external auditor won't be affected by such services;

(iii) the nature and cost of the non-auditing service, and the cost level for both the individual services and for the service package provided by the auditor; and

(vi) the standard adopted to determine the audit employee's remuneration.

(d) the Committee can establish relevant policies and systems on reporting according to the above clause 6.3(a).

8 Reporting Procedure

Minutes of the Committee meeting shall be kept by the secretary of the Committee. Draft and final version of the minutes shall be sent to all the members for their comments and records within a reasonable time after the meeting. The endorsed Committee meeting minutes shall be submitted to the Board.

9 The Company's annual general meeting

As required by the Board, the chairman of the Committee, or in his absence, another member of the Committee (or his/her duly appointed representative) shall be present at the Annual General Meeting of the Company and answer questions at the meeting.

10 The Authority of the Board

10.1 The Board reserves the ultimate right of interpretation to this Terms of Reference.

10.2 This Terms of Reference shall enter into force after being reviewed and approved by the Board.