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寶業集團股份有限公司

BAOYE GROUP COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 2355)

Terms of Reference of Audit Committee

Membership

- (a) The Audit Committee (the “Committee”) shall consist of not less than three members appointed by the board (the “Board”) of directors (the “Directors”) of Baoye Group Company Limited (the “Company” , together with its subsidiaries, the “Group”), all of whom are non-executive Directors with at least one of whom is an independent non-executive Director with such 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”).
- (b) The Board shall appoint the chairman of the Audit Committee (the “Committee Chairman”). The Committee Chairman must be an independent non-executive Director.
- (c) The Committee may invite any director(s), executive(s), external auditor(s) or other person(s) to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective(s).

Frequency of meetings

- (a) The Committee shall meet with such frequency and at such times as it may determine, but in any event not less than two times a year with its external auditor.
- (b) The Committee Chairman may convene additional meetings at his discretion.

- (c) The quorum for meetings shall be two Committee members.

Duties and powers

The Committee is authorised by the Board to investigate any activity within its terms of reference; and to seek information it requires from employee(s), whereas all employees are directed to co-operate with any reasonable request made by the Committee.

Functions

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external accounting firm, and to approve the remuneration and terms of engagement of the external accounting firm, and any questions of its resignation or dismissal;
- (b) to act as the key representative body for overseeing the Company's relations with the external accounting firm;
- (c) to review and monitor the external accounting firm's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the accounting firm the nature, scope of the auditing and relevant reporting obligations before the audit commences;
- (d) to develop and implement policy on engaging an external accounting firm to supply non-audit services. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (e) to monitor integrity of the Company's financial statements and 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 reviewing these reports before submission to the Board, the 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 ongoing concern assumptions and any qualifications;
 - v. compliance with accounting standards; and
 - vi. compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (f) In regard to item (d) above:
 - i. members of the Committee must liaise with the Board and senior management of the Company and the Committee must meet, at least twice a year, with the Company's accounting firm; and
 - ii. the Committee should consider any significant or unusual matters 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 or accounting firm;
- (g) to review the Company's financial controls, internal control and risk management systems;
 - (h) to discuss the internal control system with management to ensure that the management has performed its duty to have an effective internal control system. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
 - (i) 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;
 - (j) 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 Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
 - (k) to ensure co-ordination between the internal auditors and external accounting firms, 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;
 - (l) to review the Group's financial and accounting policies and practices;
 - (m) to review the external accounting firm's management letter, audit specification to the management, any material queries raised by the external accounting firm about accounting records, financial accounts or systems of supervisory and control and management's response;
 - (n) to ensure that the Board will provide a timely response to the issues raised in the external accounting firm's management letter;
 - (o) to report to the Board on the matters set out in the provisions above; and
 - (p) to consider other topics, as defined by the Board.

Reporting Procedures

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

Zhejiang Province, the PRC

19 March 2012

** For identification purpose only*