

**DAPHNE INTERNATIONAL HOLDINGS LIMITED**  
**達 芙 妮 國 際 控 股 有 限 公 司\***  
(Incorporated in the Cayman Islands with limited liability)  
(Stock code: 210)

**AUDIT COMMITTEE**

**Terms of Reference**

(Updated on 29 March 2016)

**Membership**

1. All members of the Audit Committee (the “**Committee**”) shall be appointed by the board of the directors (the “**Board**”) of the Company from amongst the non-executive directors of the Company and can be removed by the Board from time to time.
2. The Committee shall consist of not less than three members, a majority of whom should be independent non-executive directors. At least one member of the Committee shall have appropriate professional qualifications or accounting or related financial management expertise.
3. The Chairman of the Committee shall be appointed by the Board and must be an independent non-executive director.
4. A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Committee for a period of one year commencing on the later of (a) the date of his/her ceasing to be a partner of the firm; or (b) the date of his/her ceasing to have any financial interest in the firm.

**Meetings**

5. The quorum for meetings of the Committee shall be any two members of the Committee.
6. The external auditors, other members of the Board, the Head of Internal Audit and senior management of the Company or any other person may be invited by the Committee to attend all or part of any meeting.
7. The Company Secretary of the Company shall be the secretary of the Committee or a nominee shall act as the secretary of the Committee.
8. Meetings shall be held not less than twice a year. The external auditors of the Company may request a meeting if they consider necessary.
9. Notice of any meeting has to be given at least 14 days prior to any such meeting being held, unless all members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a member shall be deemed waiver of the requisite length of notice by the member. Notice of any adjourned meeting is not required if adjournment is for less than 14 days.

\* *for identification purpose only*

10. The Chairman of the Committee shall act as chairman of a meeting. In the absence of the Chairman of the Committee, the remaining members present shall elect one of themselves who is an independent non-executive director to chair the meeting.
11. Only members of the Committee are entitled to vote at a meeting and resolutions of the Committee shall be passed by a majority of votes.
12. Except as required by laws, a resolution signed by all members of the Committee shall be as valid as if it had been passed at a meeting of the Committee.
13. Any member of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities that permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously.
14. Full minutes and resolutions in writing shall be kept by the secretary of the Committee. Draft and final versions of minutes shall be circulated to all members for their comment and records within a reasonable period of time after the meeting. Minutes and resolutions in writing shall be open for directors' inspection.

## **Duties**

15. The responsibility of the Committee is to assist the Board in fulfilling its duties through the review and supervision of the Company's financial reporting, risk management and internal control systems and to assist the Board with any other responsibilities as may be delegated by the Board from time to time. The Committee shall have the following duties:

### ***Relationship with the Company's external auditor***

- 15.1 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 resignation or dismissal of that auditor;
- 15.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 15.3 to develop and implement policy on the engagement of 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 having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- 15.4 to act as the key representative body for overseeing the Company's relations with the external auditor;

### ***Review of financial information of the Company***

15.5 to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, quarterly reports (if applicable), and to review significant financial reporting judgements 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 going concern assumptions and any qualifications;
- (v) compliance with accounting standards; and
- (vi) compliance with the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited and other legal requirements in relation to financial reporting;

15.6 regarding 15.5 above,

- (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's external auditors; and
- (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and 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, risk management and internal control systems***

15.7 to review the Company's financial controls, internal control and risk management systems;

15.8 to discuss the risk management and internal control systems with the management to ensure that management has performed its duty to have effective systems. This discussion should include:

- (i) the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions;
- (ii) the change in the nature and extent of significant risks, and the ability of the Company to respond to changes in its business and the external environment;
- (iii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems and the work of its internal audit function;
- (iv) the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Company and the effectiveness of risk management; and

- (v) significant control failings or weaknesses that have been identified. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the financial performance or condition of the Company;
- 15.9 to consider major investigations findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 15.10 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;
- 15.11 to review the Group's financial and accounting policies and practices;
- 15.12 to review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- 15.13 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 15.14 to report to the Board on the matters in the relevant code provision under the Appendix 14 of the Listing Rules;
- 15.15 to review arrangements the employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- 15.16 to consider other topics, as defined by the Board;

***Corporate governance functions delegated by the Board***

- 15.17 to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- 15.18 to review and monitor the training and continuous professional development of directors and senior management; and
- 15.19 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- 15.20 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- 15.21 to review the Company's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report.

### **Reporting Responsibilities**

16. The Committee shall report to the Board after each meeting, except on matters where there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

### **Authority**

17. The Committee shall be provided with sufficient resources to perform its duties.
18. The Committee is authorised by the Board to inspect all accounts, books and records of the Company.
19. The Committee shall have the right to require the Company's management to furnish information on any matter relating to the financial position of the Company and its subsidiaries as may be required for the purpose of performing its duties.
20. Any member of the Committee may seek independent professional advice in appropriate circumstances at the Company's expense to perform his/her duties as a member of the Committee, and arrangements could be made through the Company Secretary.

### **Annual general meeting**

21. The Chairman of the Committee or in his absence, another member of the Committee, shall attend the annual general meeting of the Company so as to be available to answer questions from the shareholders of the Company on matters within the scope of duties of the Committee.

### **Publication of the Terms of Reference**

22. These terms of reference are posted on the respective websites of the Company and Hong Exchanges and Clearing Limited. A copy of the terms of reference will be made available to any person without charge upon request.