

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)

TERMS OF REFERENCE
OF
AUDIT COMMITTEE

(Adopted as amended by the Board on 19 March 2012)

Membership

1. 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 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.
2. The chairman of the Committee (the “**Committee Chairman**”) shall be an independent non-executive director appointed by the Board.
3. Appointments to the Committee shall be co-terminus with the directorship of the relevant members (whether by retirement, rotation or otherwise).

Quorum

4. The quorum necessary for physical meetings and meetings held through electronic means shall be two members.

Attendance at meetings

5. The external auditors, other Board members and senior management of the Company or any other person may be invited by the Committee to attend all or part of any meetings.
6. The external auditors shall meet with the Committee without presence of any of the Board members if so required by the Committee.
7. The company secretary of the Company or a nominee shall act as the secretary of the Committee (the “**Secretary**”).

Frequency and proceedings of meetings

8. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider necessary.
9. Notice of Committee meetings shall be given to all members. Notice of the Committee meetings shall be deemed to be duly given to a member if it is given to him or her verbally or in writing sent to the last address or email address given by him or her to the Company.

* *for identification purpose only*

10. Only members of the Committee are entitled to vote at the meetings and resolutions of the Committee shall be passed by a majority of votes of the members present.
11. 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.
12. 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.

Authority

13. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
14. The Committee is authorised by the Board to obtain, at the expense of the Company, 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

15. The Committee shall have the following duties:

Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendation 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;
- (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 Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) 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;
- (d) to act as the key representative body for overseeing the Company's relations with the external auditor;

Review of financial information of the Company

- (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 judgements contained in them. In this regard, 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 on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and other legal requirements in relation to financial reporting;
- (f) Regarding to (10)(d) above,
 - (i) Committee members shall 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 shall consider any significant or unusual items that are, or may need to be, reflected in such 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 and internal control procedures

- (g) to review the Company's financial controls, internal control and risk management systems;
- (h) to discuss with the management the system of internal control to ensure that management has discharged 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;
- (i) to consider major investigations findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (j) 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;
- (k) to review the group's financial and accounting policies and practices;
- (l) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (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 set out herein and matters required to be performed by the Committee under the Code of Corporate Governance Practices of the Listing Rules and its revisions implemented from time to time;

- (o) 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;
- (p) to consider other topics, as defined by the Board.

Corporate governance

- (q) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (r) to review and monitor the training and continuous professional development of directors and senior management; and
- (s) to review the Company's compliance with legal and regulatory requirements, the Code on Corporate Governance Practices of the Listing Rules and disclosure in the Company's corporate governance report.

Reporting procedures

16. Full minutes of the meetings of the Committee should be kept by the Secretary. Draft and final versions of minutes of the meetings should be sent to all Committee members for their comment and records within a reasonable time after the meeting.
17. The Secretary shall circulate the minutes of meetings to all Board members.
18. The Committee shall, unless there are legal or regulatory restrictions from doing so, report its findings and recommendations to the Board on a regular basis, normally at the next meeting of the Board following a meeting of the Committee.
19. The Committee shall report to the Board on the matters under these terms of reference.

Annual general meeting

20. The Committee Chairman 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 and update of these terms of reference

21. These terms of reference shall be updated and revised as when necessary in light of changes in circumstances and changes in regulatory requirements in Hong Kong.
22. These terms of reference will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited.