

**GOOD FRIEND INTERNATIONAL HOLDINGS INC.**  
**友佳國際控股有限公司**

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

*(Effective on 1 January 2016)*

**Good Friend International Holdings Inc.**  
**友佳國際控股有限公司**  
**(the “Company”)**

**Terms of reference of the Audit Committee (the “Committee”)**  
**of the Board of Directors (the “Board”) of the Company**

**1. Constitution**

- 1.1 The Committee is established pursuant to a resolution passed by the Board at its meeting held on 22 December 2005.

**2. Membership**

- 2.1 Members of the Committee shall be appointed by the Board from amongst the non-executive directors of the Company only and shall consist of not less than three members, a majority of whom shall be independent non-executive directors (including at least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required in rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).
- 2.2 The Chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.
- 2.3 The secretary of the Company or in his absence, his representative shall be the secretary of the meeting of the Committee.

**3. Proceedings of the Committee**

**3.1 Notice of Meeting:**

- (a) Unless otherwise agreed by all the Committee members, a meeting shall be convened by at least seven days’ notice.
- (b) A Committee member may at any time summon a Committee meeting.
- (c) Notice shall be given to each Committee member in person orally or in writing or by telephone or by facsimile transmission or email at numbers or addresses from time to time notified to the secretary of the Company by such Committee member or in such other manner as the Committee members may from time to time determine.
- (d) Any notice given orally shall be followed by confirmation in writing as soon as practicable before the meeting.

- (e) Notice of meeting shall state the date, time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the members of the Committee for the purposes of the meeting.

3.2 The quorum of the Committee meeting shall be two members of the Committee.

3.3 The head of finance department, the head of internal audit (or any person(s) assuming the relevant functions but having a different designation) and a representative of the external auditors shall normally attend meetings. Other Board members shall also have the right of attendance. However, the Committee shall meet with the external auditors at least once a year without executive Board members and management being present.

3.4 Meetings shall be held not less than twice a year to consider the budget, revised budget and interim or annual report prepared by the Board. The external auditors may request the Chairman of the Committee to convene a meeting, if they consider that one is necessary.

#### **4. Written resolutions**

4.1 Written resolutions may be passed by all Committee members in writing.

#### **5. Alternate Committee members**

5.1 A Committee member may not appoint any alternate.

#### **6. Authority of the Committee**

6.1 The Committee may exercise the following powers:

- (a) to seek any information it requires from any employee of the Company and its subsidiaries (together, the “**Group**”) and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend Committee meetings and to supply information and address the questions raised by the Committee;
- (b) to monitor whether the Group’s management has, in the performance of their duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Listing Rules, the Listing Agreement (if any) and other rules and regulations from time to time determined by the Board or a committee thereof);
- (c) to investigate all suspected fraudulent acts involving the Group and request the management to make investigation and submit reports;

- (d) to review the Group's internal control procedures and system;
- (e) to review the performance of the Group's employees in the accounting and internal audit department;
- (f) to make recommendations to the Board for the improvement of the Group's internal control procedures and system;
- (g) to request the Board to convene a Board meeting or (a shareholders' meeting, if necessary) for purpose of revoking the appointment of any director(s) and dismissing any employee(s) if there is evidence showing that the relevant director(s) and / or employee(s) has (have) failed to discharge his duties properly;
- (h) to request the Board to take all necessary actions, including convening an extraordinary general meeting, to replace and dismiss the auditors of the Group;
- (i) 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; and
- (j) to exercise such powers as the Committee may consider necessary, desirable or expedient so that their duties under section 7 below can be properly discharged.

## **7. Responsibility**

- 7.1 The Committee is to serve as a focal point for communication between other directors, the external auditor and the internal auditor of the Company as regards their duties relating to financial and other reporting, risk management and internal control systems, external and internal audits and such other financial and accounting matters as the Board determines from time to time.
- 7.2 The Committee is to assist the Board in providing an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Company and its subsidiaries (the "Group"), overseeing the audit process, reviewing the completeness, accuracy, clarity and fairness of the Company's financial statements, considering the scope, approach and nature of both internal and external audit reviews and reviewing and monitoring connected transactions and performing other duties and responsibilities as may be assigned by the Board from time to time.

## **8. Duties**

- 8.1 The duties of the Committee shall be:

### ***Relationship with the Company's auditors***

- (a) 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 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 standards. The Committee should discuss with the external auditor the nature and scope of the audit and reporting obligations and ensure coordination where more than one audit firm is engaged before the audit commences;
- (c) 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. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

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

- (d) 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 adjustment resulting from the audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards;
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
  - (vii) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group and whether such connected transactions, if any, have been carried out in accordance with the terms of the agreement governing such transactions;

- (viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosures give a fair view of the Group's financial conditions; and
  - (ix) the cashflow position of the Group;
- and to provide advice and comments thereon to the Board;
- (e) regarding (d) 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 auditors; and
    - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and account, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting, compliance officer or auditors;
  - (f) to discuss problems and reservations arising from the interim review and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);

***Oversight of the Company's financial reporting system and internal control procedures***

- (g) to review the Company's financial controls, and unless expressly addressed by a separate Board risk management committee or by the board itself, risk management and internal control systems;
- (h) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget, the Company's accounting and financial reporting function;
- (i) to consider major investigation 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;
- (j) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (k) 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;

- (l) to review the Group's financial and accounting policies and practices;
- (m) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response; and to act as the key representative body for overseeing the Company's relation with the external auditor;
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (o) to report to the Board on the matters set out in the code provisions contained in the Code on Corporate Governance Practices set out in (and as amended from time to time) Appendix 14 to the Listing Rules;
- (p) to consider the appointment of any person to be a Committee member, a company secretary, auditors and accounting staff either to fill a casual vacancy or as an additional Committee member and auditors or dismissal of any of them; and
- (q) to review arrangements that 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 the fair and independent investigation of such matters and for appropriate follow-up action; and
- (r) review annually the external auditor's fees which have been negotiated with management of the Company;
- (s) when the external auditor renders a substantial volume of non-audit services to the Group, to keep the nature and extent of such services under review, and ensure that the provision by the external auditor of non-audit services does not impair the external auditor's independence or objectivity; and
- (t) to consider other matters, as defined or assigned by the Board from time to time.

8.2 The Committee should be provided with sufficient resources to discharge all of its duties.

## **9. Reporting procedures**

9.1 Full minutes of Committee meeting shall be kept by the secretary of the Company. The secretary of the Company shall circulate the draft and final version of minutes of meetings for their comments and records respectively and all written resolutions of the Committee to all members of the Board within a reasonable

time.

## **10 Continuing application of the articles of association of the Company**

- 10.1 The articles of association of the Company regulating the meetings and proceedings of the Directors so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Committee.

## **11. Powers of the Board**

- 11.1 The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including the Code on Corporate Governance Practices), amend, supplement and revoke these terms of reference and any resolution passed by the Committee provided that no amendments to and revocation of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid if such terms of reference or resolution had not been amended or revoked.

## **12. Others**

- 12.1 The chairman of the Committee or in his absence, another member of the Committee or failing this, his duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to questions at the annual general meeting on the Committee's activities and their responsibilities.