

DAN FORM HOLDINGS COMPANY LIMITED

AUDIT COMMITTEE - TERMS OF REFERENCE

Revised on 18th March, 2009 pursuant to the Code on Corporate Governance Practices effective on 1st January, 2009.

Revised on 29th March, 2012 pursuant to the Code on Corporate Governance Practices effective on 1st April, 2012. The original version, the Board reaffirmed and amended and modified from time to time in the future, update. Such as the original version and the updated version of the conflict, while the updated version shall prevail.

1. *Membership*

- 1.1 The Audit Committee shall be appointed by the board (the “Board”) of directors (the “Directors”) of the Company from amongst the non-executive Directors and shall consist of not less than three members, a majority of whom should be independent non-executive Directors and at least one independent non-executive Director should have appropriate professional qualifications or accounting or related financial management expertise.

A former partner of the Company’s existing audit firm should be prohibited from acting as a member of the Company’s Audit Committee for a period of one year commencing on the date of his ceasing:

- (i) to be a partner of the firm; or
- (ii) to have any financial interest in the firm

whichever is the later.

- 1.2 The Chairman of the Audit Committee shall be appointed by the Board and should be an Independent Non-Executive Director.

2. *Secretary*

- 2.1 The Company Secretary shall be the secretary of the Audit Committee.
- 2.2 The Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Audit Committee.

3. *Frequency and attendance at meetings*

- 3.1 The Audit Committee shall meet at least two times a year. The Company’s external auditors may request that a meeting be held if they consider it necessary.

- 3.2 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 meetings is not required if adjournment is for less than 14 days.
- 3.3 The quorum for the Audit Committee meeting shall be any two members.
- 3.4 Meetings could be held in person, by telephone or by video conference. Members may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.
- 3.5 Resolutions of the Audit Committee at any meeting shall be passed by a majority of votes of the members present.
- 3.6 A resolution in writing signed by all the members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.
- 3.7 Full minutes of Audit Committee meetings should be kept by the secretary of the meeting. Draft and final versions of minutes of the Audit Committee meetings should be sent to all members of the Audit Committee for their comment and records respectively, in both cases within 14 days after the meeting. Such minutes shall be opened for Directors' inspection.
- 3.8 At least once a year, representatives of the Company's external auditors will meet the Audit Committee without any Executive Directors being present.
- 3.9 At the invitation of the Audit Committee, the following persons may attend the meeting:
 - (i) Financial Controller (or person occupying the same position); and
 - (ii) Other members of the Board or other persons.
- 3.10 Only members of the Audit Committee are entitled to vote at the meetings.

4. ***Annual General Meeting***

The Chairman of the Audit Committee or in his/her absence, another member (who must be an independent non-executive Director) of the Audit Committee, shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Audit Committee's activities and their responsibilities.

5. ***Duties and Responsibility***

The duties and responsibility of the Audit Committee are to assist the Board in fulfilling its audit duties through the review and supervision of the Company's

financial reporting and internal control system. The Audit Committee shall have the following responsibility, power and discretion:

Relationship with the Company's auditors

- 5.1 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;
- 5.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 5.3 to develop and implement policy on 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 Audit Committee should report to the board, identifying and making recommendations on any matters where action or improvement is needed;
- 5.4 to review the external auditor's management letter and management's response;

Review of the Company's financial information

- 5.5 to monitor integrity of the Company's financial statements and annual report and accounts and half-year report, and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them before submission to the Board. In reviewing these reports before submission to the board, the Audit 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 Listing Rules and legal requirements in relation to financial reporting.

In regard to 5.5 above:-

- (i) members of the Audit Committee should liaise with the board and senior management and the Audit Committee must meet, at least

twice a year, with the Company's external auditors; and

- (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report 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, or auditors;

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

- 5.6 to review the Company's financial controls, internal control and risk management systems;
- 5.7 to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- 5.8 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;
- 5.9 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;
- 5.10 to review the group's financial and accounting policies and practices;
- 5.11 to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 5.12 to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;
- 5.13 to report to the board on the matters in the Code on Corporate Governance Practices; and
- 5.14 to consider other topics, as defined by the board

Other duties

- 5.15 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 Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- 5.16 to act as the key representative body for overseeing the Company's relations

with the external auditor.

6. *Reporting Responsibility*

- 6.1 The Audit Committee shall report to the Board their decisions or recommendations after each meeting.
- 6.2 Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the board has taken a different view.

7. *Authority*

- 7.1 The Audit 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 Audit Committee.
- 7.2 The Audit 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, its subsidiaries or affiliates, as may be required for the purposes of discharging its duties.
- 7.3 The Audit Committee is authorised by the Board 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.
- 7.4 The Audit Committee shall be provided with sufficient resources to discharge its duties.

8. *Publication of the Terms of Reference*

- 8.1 The terms of reference will be posted on the websites of the Company and the Stock Exchange of Hong Kong Limited. A copy of the terms of reference will be made available to any person without charge upon request.