

DAIDO GROUP LIMITED
AUDIT COMMITTEE – TERMS OF REFERENCE

1. Constitution

- 1.1 The board of directors (the “Director(s)”) (the “Board”) of Daido Group Limited (the “Company”) has resolved to establish a committee of the Board known as the Audit Committee (the “Committee”) on 12 January 2000.
- 1.2 Revised on 28 March 2012 pursuant to the Corporate Governance Code effective on 1 April 2012.
- 1.3 Revised on 12 November 2015 pursuant to the Risk Management and Internal Control section of the Corporate Governance Code and Corporate Governance Report effective on 1 January 2016.
- 1.4 The revised version shall supersede any terms of reference previously adopted by the Board of Directors.

2. Membership

- 2.1 The members of the Committee (the “Member(s)”) shall be appointed by the Board and shall comprise a minimum of three non-executive Directors. The majority of the Committee must be independent non-executive Directors.
- 2.2 At least one of the Members must be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).
- 2.3 The chairman of the Committee (the “Chairman”) shall be appointed by the Board and must be an independent non-executive Director.
- 2.4 A former partner of the Company’s existing external auditing firm is prohibited from acting as a Member for a period of 1 year as calculated under the Listing Rules and applicable auditor independence rules.
- 2.5 Subject to clause 2.1, if a regular Member is unable to act due to absence, illness or any other cause, the Chairman may appoint another non-executive Director to serve as an alternate Member.

3. Secretary

- 3.1 The company secretary of the Company shall be the secretary of the Committee (the “Secretary”).

4. Quorum

- 4.1 The quorum necessary for the transaction of the business of the Committee shall be two Members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5. Frequency of Meetings

- 5.1 Meetings shall be held as frequent as the Committee considers appropriate, it will normally meet four times a year. The Committee must meet, at least twice a year with the Company's auditor. The external auditor or the Chief Financial Officer may request a meeting if they consider that is necessary.
- 5.2 At least once a year the Committee shall meet with the external auditor without any executive member of the Board or management in attendance.
- 5.3 The external auditor and the Chief Financial Officer may have access to the Chairman or any other Member as required in relation to any matter falling within the remit of the Committee.

6. Notice of Meetings

- 6.1 Notice of any meetings 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, a Member attending the meeting shall be deemed to be a waiver of the requisite length of notice of the meeting by the Member. Notice of any adjourned meetings is not required if adjournment is for less than 7 days.

7. Attendance at Meetings

- 7.1 Subject to clause 5.2, if requested by the Committee, the Chief Financial Officer, the head of Internal Audit (if any), the company secretary and representative(s) of the external auditor of the Company shall attend meetings of the Committee.
- 7.2 At the discretion of the Committee, others (including other members of the Board, senior management, the internal auditor(s) and other managers) might be invited to attend meetings or parts of meetings.
- 7.3 Meetings may be held in person, by telephone or 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.

8. Authority

- 8.1 The Company shall provide the Committee with sufficient resources to perform its duties.
- 8.2 The Committee is authorized by the Board to investigate any activity within its terms of reference. Its work is advisory to the Board. It is authorized to seek any information it requires from any employee and all the employees are required to co-operate with any request made by the Committee.
- 8.3 The Committee will not be responsible for supervising the performance of executives (nor permitted to do so) and will not be required to become involved in day-to-day operations, management functions or decision-making.
- 8.4 The Committee is authorized to obtain outside legal or other independent professional advice if it considers necessary, after consultation with the chairman of the Board, and to secure the attendance of external professional advisers at its meetings if it considers necessary.

9. Duties

- 9.1 The Committee shall take full account of the Listing Rules.
- 9.2 The duties of the Committee shall be:-

Relationship with the Company's external auditor

- (a) to be primarily responsible for:
 - (i) making recommendations to the Board on the appointment, reappointment and removal of the external auditor;
 - (ii) approving the remuneration and terms of engagement of the external auditor; and
 - (iii) any questions of resignation or dismissal of the external 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 must pre-approve, and adopt appropriate procedures to pre-approve, all audit services to be provided by the external auditor and discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences. The Committee should keep under review the cost-effectiveness of the audit. The Committee should ensure that proper arrangements are made where more than one audit firm is involved;
- (c) to develop and implement policy on engaging an external auditor to supply non-audit services. The Committee must review and pre-approve, or adopt appropriate procedures to pre-approve, any non-audit services for complying with relevant legal requirements and seek

to balance the maintenance of objectivity with value for money (where a substantial volume of such services is supplied). 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;

- (d) to obtain from the external auditor in connection with any audit a timely report relating to the Company’s annual audited financial statements describing all critical accounting policies and practices used, all alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor, and any material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences;
- (e) to discuss with management the timing and process for implementing the rotation of the lead audit partner, the concurring partner and any other active audit engagement team partner and consider whether there should be a regular rotation of the external auditor itself;
- (f) to act as the key representative body for overseeing the Company’s relations with the external auditor;

Review of the Company’s financial information

- (g) to monitor the integrity of the Company’s financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, together with any accompanying discussion papers to shareholders, the preliminary announcement of results and any other announcement regarding the Company’s result or other financial information to be made public (together, the “Financial Documents”), and to review significant financial reporting judgments contained in the Financial Documents. In reviewing the Financial Documents 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 Listing Rules and legal requirements in relation to financial reporting;

- (h) regarding (g) above:-
 - (i) Members shall liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's internal and external auditors; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the Financial Documents, it shall 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, internal auditor or external auditor;
- (i) to discuss problems and reservations arising from the audit, and any matters the auditor(s) may wish to discuss (in the absence, where requested by the Committee, of the executive Directors and any other person who is not a Member);

Oversight of the Company's financial reporting system, risk management and internal control systems

- (j) to review, at least annually, the effectiveness of the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the issuer's risk management and internal control systems (including controls over significant trading and credit risks (such as derivatives)) and to report to the Board that such a review has been carried out;
- (k) 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 shall include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (l) to receive, at such intervals as the Committee may determine, general details of audits carried out by the internal audit function and, where requested by the Committee, consider in detail the report, including the recommendations of any particular such audit;
- (m) 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;
- (n) to select, in consultation with the chairman of the Board and the executive Directors and senior management (or otherwise to approve) any topic to be the subject of an audit into the efficiency, effectiveness or value for money of any of the activities or operations of the Company and to review reports in respect of such audits and to recommend to the Board, in consultation with the Chairman and the executive Directors and senior management, any actions that the Committee considers appropriate in the circumstances;
- (o) 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;
- (p) to review:

- (i) periodic reports from the internal auditors outlining the work carried out in that period and highlighting any major issues encountered to the Board; and
 - (ii) the follow-up of major action plans recommended by the internal auditors to ensure that, where a control weakness exists, agreed management action is being taken in a timely fashion;
- (q) to review the financial and accounting policies and practices of the Company and its subsidiaries;
 - (r) to review any significant transactions which are not in the ordinary course of business;
 - (s) 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;
 - (t) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
 - (u) to report to the Board on the matters in this paragraph;
 - (v) to consider other topics, as defined by the Board; and
 - (w) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action.

9.3 The Chairman shall attend the annual general meeting to answer any shareholders' questions. In the Chairman's absence, another Member or failing this his duly appointed delegate should attend in his place.

10. Minutes and reporting to the Board

10.1 The Secretary shall keep and send the minutes of meetings of the Committee to all members of the Board.

10.2 The Members shall cause minutes to be made of all resolutions and proceedings of the Committee including the names of all those present and in attendance at meetings of the Committee. Minutes of Committee meetings shall record in sufficient detail the matters considered and decisions reached, including any concerns raised by the Members and dissenting views expressed.

10.3 Draft and final versions of minutes of the Committee meetings shall be sent to all Members for their comments and records within a reasonable time after the meeting is held. Such minutes of meeting shall be open for inspection at any reasonable time on reasonable notice by any Director.

10.4 Except where this would violate legal or regulatory requirements, the Committee shall promptly report back to the Board all decisions and recommendations.

11. Publication of the terms of reference

11.1 The terms of reference shall be posted on the websites of the Stock Exchange and the Company. A copy of the terms of reference will be made available to any person without charge upon request.

12. Miscellaneous

12.1 The English text of this terms of reference will prevail over the Chinese text in case of any inconsistency.

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