



ELEGANCE OPTICAL INTERNATIONAL HOLDINGS LIMITED

高雅光學國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 907)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Amended by the Board on 23 February 2016 and take effect on 1 March 2016

(In case of inconsistency between the English and the Chinese version, the English version shall prevail.)

AUDIT COMMITTEE – TERMS OF REFERENCE

Below are the Terms of Reference of the Audit Committee of the Company established on 12 April 1999 and as amended to take effect on 1 March 2016 pursuant to resolutions of the board (the “Board”) of directors (the “Directors”) of the Company on 23 February 2016 in compliance with the Corporate Governance Code under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

1. Membership

- 1.1 The Audit Committee shall be appointed by the Board and must consist of a minimum of three members (the “Members”).
- 1.2 Membership shall be confined to non-executive Directors, the majority of whom must be independent non-executive Directors (“INEDs”) and at least one INED with appropriate professional qualifications or accounting or related financial management expertise.
- 1.3 The Chairman of the Audit Committee shall be appointed by the Board and must be an INED.
- 1.4 In the event that the Audit Committee comprises a non-executive Director who is a former partner of the Company’s existing auditing firm, such non-executive Director shall be prohibited from acting as a Member of the Audit Committee for a period of one year from 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.

2. Secretary

- 2.1 The Company Secretary of the Company or his/her delegate 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. Meetings

3.1 The meetings and proceedings of the Committee are governed by the provisions contained in the Company's Bye-laws.

3.2 The Audit Committee shall meet at least twice a year. The Company's Audit Committee or the auditor of the Company (the "Auditor") may request that a meeting be held if it considers it necessary.

3.3 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, 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.

3.4 The quorum of the Audit Committee shall be any two Members.

3.5 Meetings can 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 or through electronic means of communications by means of which all persons participating in the meeting are capable of hearing each other.

3.6 Resolutions of the Audit Committee at any meetings shall be passed by a majority of votes of the Members present.

3.7 A resolution in writing signed by all the Members of the Audit Committee shall be as valid and effectual as if it has been passed at a meeting of the Audit Committee duly convened and held.

3.8 Full minutes shall be kept by the secretary of the Audit 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. Finalised minutes shall be sent to all other members of the Board for information.

4. Attendance at Meetings

4.1 At least once a year, representatives of the Auditor will meet the Audit Committee without any Executive Directors being present, except by invitation of the Audit Committee, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the Auditor may wish to raise.

4.2 The following persons will normally attend all meetings of the Audit Committee, unless requested otherwise by the Audit Committee:

(a) the Auditor;

(b) Head of Internal Audit or in his/her absence, a representative from internal audit;

- (c) Group Finance Director;
- (d) Company Secretary; and
- (e) Head Group General Counsel.

4.3 Other members of the Board may attend meetings of the Audit Committee although only Members of the Audit Committee are entitled to vote at the meetings.

5. Annual General Meeting

The Chairman of the Audit Committee or in his/her absence, another Member (who must be an INED) of the Audit Committee, shall attend the Company's Annual General Meetings and be prepared to respond to shareholders' questions on the Audit Committee's activities and their responsibilities.

6. Responsibility, Powers and Discretion

The responsibility of the Audit 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 responsibility as may be delegated by the Board from time to time. The Audit Committee shall have the following responsibilities, powers and discretion:

Relationship with the Company's External Auditor

- 6.1 to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the Auditor, and to approve the remuneration and terms of engagement of the Auditor, and any questions of its resignation or dismissal;
- 6.2 to review and monitor the Auditor's independence and objectivity, including to:
 - (a) consider all relationship between the Company and the audit firm; and
 - (b) obtain from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff;
- 6.3 to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the Auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 6.4 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;
- 6.5 to be primarily responsible for making recommendations to the Board for the approval of any non-audit services provided to the Company by the external auditor. The Audit Committee should ensure that the provision of such non-audit services would not impair the external auditor's independence or objectivity having taken into account the following matters:

- (a) whether the skills and experience of the audit firm make it a suitable supplier of such non-audit services;
 - (b) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the external auditor notwithstanding its proposed provision of the non-audit services;
 - (c) the nature of the non-audit services, the related fee levels and the individual and aggregate fee levels relative to the audit firm; and
 - (d) the criteria for determining the compensation of the individuals performing the non-audit services;
- 6.6 to act as the key representative body for overseeing the Company's relations with the Auditor and the external auditor;
- 6.7 to set policies on hiring employees or former employees of the Auditor and the external auditors and monitoring the application of these policies;

Review of the Company's financial information

- 6.8 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 any significant financial reporting judgements contained in them. In reviewing these reports (if applicable) before submission to the Board, the Audit Committee shall focus particularly on:
- (a) financial reporting and accounting policies and practices and any changes in these policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and
 - (f) compliance with the Listing Rules, other applicable rules and legal requirements in relation to financial reporting;
- 6.9 Regarding 6.8 above:
- (a) Members of the Audit Committee should liaise with the Board and senior management;
 - (b) the Audit Committee must meet, at least twice a year, with the Auditor; and
 - (c) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and it should give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer (or person occupying the same position) of the Company, or the Auditor;

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

- 6.10 to review the Company's financial controls and risk management and internal control systems with particular regard to their effectiveness;

- 6.11 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:
- (a) the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions;
 - (b) the changes 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;
 - (c) 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;
 - (d) 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
 - (e) 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;
- 6.12 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;
- 6.13 to ensure co-ordination between the internal auditors, the Auditor and other external auditors, to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, to review and monitor its effectiveness, and to meet with the head of internal audit at least once a year to ensure that there are no unresolved issues or concerns;
- 6.14 to review the Group's financial and accounting policies and practices;
- 6.15 to review the statement of the Company on risk management and internal control systems prior to endorsement by the Board;
- 6.16 to review the Auditor's management letter, any material queries raised by the Auditor to management about the accounting records, financial accounts, risk management and internal control systems and response of management;
- 6.17 to ensure that management will provide a timely response to the issues raised in the Auditor's management letter;
- 6.18 to review arrangements for employees of the Company 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;

Corporate governance functions delegated by the Board

- 6.19 to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

- 6.20 to review and monitor the training and continuous professional development of Directors and senior management;
- 6.21 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- 6.22 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- 6.23 to review the Company's compliance with the Corporate Governance Code (Appendix 14 to the Listing Rules) and the disclosure in the Corporate Governance Report;

Others

- 6.24 to ensure the practices and procedures of the Company with respect to related party transactions are adequate for compliance with the requirements under the Listing Rules and other applicable rules;
- 6.25 to review from time to time as appropriate these terms of reference and recommend to the Board any necessary changes;
- 6.26 to provide to the Board such assurances as it may reasonably require regarding compliance by the subsidiaries and associates of the Company for which the Company provides management services with all supervisory and other regulations to which they are subject;
- 6.27 to report to the Board on all matters in these terms of reference and where the monitoring activities of the Audit Committee reveal cause for concern or scope for improvement, the Audit Committee shall make recommendations to the Board to address the issue or to make improvements; and
- 6.28 to consider any other matters specifically referred to the Audit Committee by the Board.

7. Reporting Responsibilities

The Audit Committee shall report to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

8. Authority

- 8.1 The Audit Committee is authorised by the Board to inspect all accounts, books and records of the Company.
- 8.2 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.

8.3 A Director as a Member of the Audit Committee may seek independent professional advice in appropriate circumstances at the Company's expense to discharge his/her duties as a Member of the Audit Committee to the Company.

8.4 The Audit Committee shall be provided with sufficient resources to perform its duties.

9. Publication of the Terms of Reference

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