

GIORDANO
GIORDANO INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 709)

AUDIT COMMITTEE
TERMS OF REFERENCE
(Updated on November 10, 2016)

(1) CONSTITUTION

- 1.1 The board of directors of the Company (the “**Board**”) resolved to establish a committee of the Board known as the Audit Committee (the “**Committee**”).

(2) MEMBERSHIP

- 2.1 All members of the Committee (the “**Members**”) shall be appointed by the Board from amongst the non-executive directors of the Company and can be removed by the Board from time to time. The Committee shall consist of not less than three members, a majority of whom should be independent non-executive directors.
- 2.2 The Chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.
- 2.3 A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Committee for a period of one year commencing on 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.

(3) AUTHORITY

- 3.1 The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 3.2 The Committee is authorized 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.
- 3.3 The Committee shall be provided with sufficient resources to perform its duties.

(4) DUTIES

The duties of the Committee shall be:

4.1 Relationship with the Company’s auditor

- (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 auditor the nature and scope of the audit and reporting obligations 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 make 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;

4.2 **Review of the Company's financial information**

- (a) 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 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 adjustments resulting from the 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 legal requirements in relation to financial reporting;
- (b) Regarding 4.2 (a) above:
 - (i) Members should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditor; and
 - (ii) the 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, compliance officer or auditor;

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

- (a) to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Company's risk management and internal control systems;
- (b) to discuss the risk management and internal control system 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 of the Company's accounting and financial reporting function;
- (c) 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;
- (d) 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;
- (e) to review the group's financial and accounting policies and practices;
- (f) 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;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (h) to report to the Board on the matters in the relevant code provision under the Appendix 14 of the Listing Rules;

- (i) 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 Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (j) to consider other topics, as defined by the Board.

(5) MEETINGS

- 5.1 The quorum for meetings of the Committee shall be any two Members.
- 5.2 The Head of Group Finance, the Head of Internal Audit, and a representative of the external auditors shall normally attend meetings. However, at least once a year the Committee shall meet with external auditors without executive directors present, except by invitation of the Committee. Subject to the above, other directors may attend all meetings although only Members are entitled to vote at such meeting.
- 5.3 Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.
- 5.4 The Company Secretary shall be the secretary of the Committee.
- 5.5 The secretary of the Committee shall circulate the minutes of meetings and reports of the Committee to all members of the Board.

(6) REPORTING

- 6.1 The Committee shall report its findings and recommendations to the Board on a regular basis. At the next Board meeting following a Committee's meeting, the Committee's Chairman shall report the Committee's findings and recommendations to the Board.
- 6.2 Where the Board disagrees with the 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 Committee explaining its recommendation(s) and also the reason(s) why the Board has taken a different view.