

These terms of reference are prepared in Chinese. In case of any inconsistency between the Chinese version and the English version, the Chinese version shall prevail.

FAVA INTERNATIONAL HOLDINGS LIMITED

名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 08108)

(the “Company”)

Audit Committee

Terms of Reference

Revised and approved by the Board of Directors of the Company on 1 March 2012

Constitution

1. The board (the “Board”) of the directors of the Company (the “Directors”) resolved on 7th July 2000 to establish a Committee of the Board to be known as the Audit Committee (the “Committee”).

Membership

1. The Committee members shall be appointed by the Board from amongst the Non-Executive Directors of the Company. In case of a Committee member would no longer hold a directorship, he will lose his qualification automatically and the Board shall appoint a new member to fill in the vacancy.
2. The Committee shall consist of not less than three members, 2/3 of whom should be Independent Non-Executive Directors.
3. The Chairman of the Committee shall be appointed by the Board, and shall be an Independent Non-Executive Director who also has appropriate professional qualifications and financial expertise.

Secretary

1. The company secretary of the Company shall be the secretary of the Committee. In the absence of the secretary of the Committee, the Committee members present at the meeting of the Committee shall select another person as the secretary.

Notice of meetings and quorum

1. Unless otherwise agreed by all the members of the Committee, notice in writing shall be given by the Committee secretary to the Committee members at least 3 days before the convention of the meeting.
2. A quorum of a Committee meeting shall be two members.

Attendance at meetings and minutes of meetings

1. The financial controller and a representative of the external auditors shall normally attend meetings.
2. The Committee may invite the executive Directors, external advisors and other persons to attend the meeting, provided that such persons have no right to vote in the Committee meeting.

3. At least once a year the Committee shall meet with the external auditors without executive Board members present.
4. The meeting can be convened by way of physical presence, tele-conferencing or video-conferencing. Committee members present by any above-mentioned manners shall be regarded as having attended the meeting. Resolutions can be passed by way of written resolutions if all the members of the Committee so agreed.
5. The resolutions of the Committee shall be taken effect until the approval by the majority of the members who attended the meeting.
6. The full-set minutes of the Committee meetings should be kept by the Committee secretary, the minutes shall contain details of the matters discussed and the decisions made by the members, including any doubts or counterviews of the members. The draft versions and the final version of the minutes of the Committee meeting shall be circulated to all the Committee members within a reasonable time after the meeting, the draft versions for the members' comment, and the final version for their record.

Frequency of meetings

1. Committee meetings shall be held not less than four times a year.
2. The external auditors may request a meeting if they consider that one is necessary.

Authority

1. The Committee is authorised to investigate any activity within its terms of reference.
2. 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 Committee.
3. The Committee can 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.

Duties

1. The duties of the Committee shall include the folloings:

Relationship with the 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 auditor the nature and scope of the audit and reporting obligations before the audit commences, and ensure co-ordination where more than one audit firm is involved;
- (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 the Company's financial information

- (d) to monitor integrity of the Company's financial statement and annual report and accounts, interim and quarterly reports, and to review significant financial reporting judgements 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 judgemental 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 GEM Listing Rules and legal requirements.
- (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 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 auditors;

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

- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) 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;
- (h) to consider major investigation findings on internal control matters as delegated by the Board or its own initiative and management's response to these findings;
- (i) to review the group's financial and accounting policies and practices;
- (j) 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;

- (k) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (l) to report to the Board on the matters in this terms of reference;
- (m) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (n) to consider other topics, as defined by the Board;

Others

- (o) 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 such these matters and for appropriate follow-up action; and
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor.

Reporting procedures

1. The secretary shall circulate the minutes of meetings and reports (if any) of the Committee to all members of the Board.
2. Unless otherwise authorised by the Board, all the members attending the Committee meetings shall keep confidence on the matters discussed in the meetings, shall not disclose the relevant information to the Public.

Power of interpretation

1. The Board has the full power of interpretation on these terms of reference.

** For identification purpose only*