

Modern Beauty Salon Holdings Limited (the “Company”)

Terms of Reference of the Audit Committee

Constitution

1. The Audit Committee is established as a committee of the board of directors of the Company (the “Board”).

Objectives

2. The Audit Committee shall be responsible for reviewing and supervising the financial reporting process, risk management and internal control systems of the Company and its subsidiaries (the “Group”).

Membership

3. The Audit Committee shall consist of at least three members, a majority of whom should be Independent Non-executive Directors. All of them shall be appointed by the Board. A quorum shall be 2/3 of the members of the Audit Committee.
4. The Chairperson of the Audit Committee shall be appointed by the Board from among its Independent Non-executive Directors.

Frequency of meetings

5. The Audit Committee shall meet at least twice a year. The external auditor may request a meeting if it considers necessary.

Notice of meetings

6. Meetings of the Audit Committee shall be called by its Chairperson or at the request of the Board.
7. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be issued to each member of the Audit Committee and any other person required to attend no fewer than three working days prior to the meeting.

Attendance at meetings

8. The Chief Financial Officer, the head of the Internal Audit Department, and a representative of the external auditor shall normally attend meetings. Other Board members shall have the right to attend meetings of the Audit Committee. However, the Audit Committee shall meet with the external and internal auditors of the Company without the presence of its Executive Directors at least once a year.
9. The Company Secretary (or his nominee) shall be the secretary of the Audit committee. In the event that the Company Secretary is also an Executive Director, the Company Secretary's nominee shall attend meeting held between the Audit Committee and the external and internal auditors of the Company.

Authority

10. The Audit 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 Audit Committee.
11. The Audit Committee is authorised by the Board, at the Company's expense, to appoint legal and/or other Independent professional advisers with relevant experience and expertise to assist the Audit Committee and to secure the attendance of such professional advisers at its meetings if it considers this necessary.

Duties

12. The duties of the Audit Committee shall be:
 - (a) to consider all loans, irrespective of the amount, made to any Director of the Company;
 - (b) to review and supervise the Group's financial reporting processes and internal controls;
 - (c) 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;
 - (d) to review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process in accordance with the applicable standards;

- (e) to discuss with the external auditor before the audit process commences, the nature and scope of the audit and reporting obligations, and ensure coordination where more than one auditor is involved;
- (f) 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.
- (g) to report to the Board, identifying and making recommendations on any matters where action or improvement is needed.
- (h) to monitor the integrity of the Group’s financial statements and annual report and accounts, half-year report and to review significant reporting judgements contained in them before submission to the Board, focusing 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 Listing Rules and legal requirements in relation to financial reporting;
- (i) Regarding (h) above:
 - (I) to liaise with the Board and senior management and to meet, at least twice a year, with the Company’s auditors;
 - (II) to consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts; and

- (III) to 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;
- (j) to discuss problems and reservations arising from the interim and final financial statements, and any matters the external auditor may wish to discuss (in the absence of management where necessary);
 - (k) to review the Group's financial controls and risk management and internal control systems;
 - (l) 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 the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
 - (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 review the Group's financial and accounting policies and practices;
 - (o) 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;
 - (p) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
 - (q) to report to the Board on the matters set out in Code provision C3.3 of Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
 - (r) to review the Company's statement on internal control systems to be included in the annual report prior to endorsement by the Board;

- (s) to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- (t) to consider the major findings of internal investigations and management's response;
- (u) to review arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;
- (v) to act as the key representative body for overseeing the Company's relationship with the external auditor; and
- (w) to consider other topics, as defined or instructed by the Board.

Reporting procedures

13. The secretary of the Audit Committee shall circulate the minutes of meetings of the Audit Committee to all members of the Board. Draft and final versions of Audit Committee meetings shall be sent to all committee members for their comments and records, respectively.

January 2016