



株式会社ニラク・ジー・シー・ホールディングス

NIRAKU GC HOLDINGS, INC.*

(Incorporated in Japan with limited liability)

(Stock Code: 1245)

Audit Committee

Rules

** for identification purposes only*

Preamble

1. 株式会社ニラク■ジー■シー■ホールディングス (NIRAKU GC HOLDINGS, INC.*) (the “**Company**”) was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**HKEx**”) on 8 April 2015.

In compliance with the code of provision of the Corporate Governance Codes issued by the HKEx (the “**Corporate Governance Code**”), an audit committee (the “**Audit Committee**”) needs to be established with the terms of reference as set out and adopted herein.

Constitution

2. The Audit Committee was established by on 25 June 2014. These rules were adopted by the Audit Committee on 16 March 2015 in substitution for and to the exclusion of the existing rules of the Audit Committee.

Membership

3. The members of the Audit Committee shall be appointed by the Board of the Company (the “**Board**”, each director of the Board, a “**Director**”) from amongst the non-executive Directors and shall consist of not less than three members, a majority of whom should be independent non-executive Directors and at least one of whom should be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required by the Rules Governing the Listing of Securities on HKEx (the “**Listing Rules**”). The quorum of an Audit Committee meeting shall be all members of the Audit Committee.
4. A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one year from the date of his ceasing:
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm, whichever is the later.

5. The chairman of the Audit Committee shall be appointed by the Board and should be an independent non-executive Director.
6. The term of office of a member of the Audit Committee shall expire at the conclusion of the annual general meeting of the Company relating to the most recent business year ending within one year following the date of these rules.

Attendance at meetings

7. The accounting auditors, financial controller, the head of internal audit of the Company and representatives of the accounting auditors shall normally attend meetings.

Frequency and procedure of meetings

8. Unless otherwise stated herein, the meetings of the Audit Committee are governed by the provisions regulating the meetings and proceedings of Directors in the Company's articles of incorporation.
9. Meetings shall be held not less than twice a year or more frequently if the Audit Committee determines it to be necessary. Meetings may be conducted by way of telephone or other electronic means.
10. The secretary of the Audit Committee shall be a company secretary of the Company or her appointed delegate.
11. An agenda and any accompanying Committee papers should be sent in full to all members of the Audit Committee in a timely manner and at least seven days before the proposed date of a meeting of the Audit Committee (or other agreed period).
12. The Company is obliged to supply the members of the Audit Committee with adequate information, in a timely manner, in order to enable them to make informed decisions. Where more detailed and complete information is requested from the member of the Audit Committee, the respective Director shall make further inquiries if needed. The Audit Committee or individual member(s) of the Audit Committee could contact the executive officers and/or senior management of the Company individually and independently.

Annual General Meeting

13. The chairman of the Audit Committee shall attend the Company's annual general meeting and be prepared to respond to any shareholder's questions on the Audit Committee's activities.
14. If the chairman of the Audit Committee is unable to attend an annual general meeting of the Company, he shall arrange for another member of the Audit Committee, or failing this, his duly appointed delegate, to attend in his place. Such person shall be prepared to respond to any shareholder's questions on the Audit Committee's activities.

Authority

15. The Audit Committee is authorised to seek any information it requires from any employee of the Company or its subsidiaries in order to perform its duties unless the relevant subsidiaries are reasonably justified not to provide such information under Article 405, Paragraph 3 of the Companies Act of Japan (Act No. 86 of 2005 of the law of Japan) and the relevant employees are directed to co-operate with any request made by the Audit Committee. It is also authorised to investigate any activity mentioned in these rules or otherwise affecting the integrity of the Company.
16. The Audit Committee is authorised to obtain outside independent professional advice, at the Company's expense, and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. The Audit Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any accounting auditors who advise the Audit Committee.
17. The Audit Committee is authorised to review the effectiveness of the Company's and its subsidiaries' internal control systems, covering all material controls, including financial, operational and compliance controls and risk management functions including financial, business, operational and other risks of the Company and its subsidiaries to undertake any related investigations.

Duties

18. The duties of the Audit Committee shall include:

Relationship with the Company's auditors

- (a) making proposal to the shareholders on the appointment, reappointment and/or removal of the accounting auditors, and to approve the remuneration and terms of engagement of the accounting auditors, and to consider any questions of resignation or dismissal of those auditors;
- (b) reviewing and monitoring the accounting auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (c) developing and implementing policy on the engagement of the accounting auditors to supply non-audit services, and to report to the Board, identifying and making recommendations on any matters requiring action or improvement;
- (d) discussing with the accounting auditors before the audit commences, the nature and scope of the audit, and ensuring co-ordination where more than one audit firm is involved;
- (e) discussing problems and reservations arising from the interim and final audits, and any matters the accounting auditors may wish to discuss;

Review of financial information of the Company

- (f) monitoring the integrity of financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports and before submission to the Board, the Audit 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 any requirements from the HKEx and other legal requirements in relation to financial reporting;
- (g) in regard to (f) above:
- (i) liaising with the Board, financial controller and the person appointed as the Company's accounting auditors;
 - (ii) meeting, at least twice a year, with the Company's accounting auditors; and
 - (iii) considering any significant or unusual items that are, or may need to be, reflected in such financial statements, reports and accounts and giving 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 accounting auditors;

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

- (h) reviewing the Company's financial controls, internal control and risk management systems;
- (i) discussing the risk management and internal control systems with the senior management and to ensure that the senior management has performed its duties in establishing and maintaining effective systems, including adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (j) considering the findings of major investigations on risk management and internal control matters as delegated by the Board or on its own initiative and the senior management's response to those findings;

- (k) where an internal audit function exists, ensuring co-ordination between the internal and accounting auditors and further ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, reviewing and monitoring its effectiveness, monitoring the planning of internal audit processes and overseeing the result of the work of the internal audit function;
- (l) reviewing the financial and accounting policies and practices of the Company and its subsidiaries and associated companies at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries and associated companies, the present subsidiaries and associated companies of the Company or the businesses operated by its present subsidiaries and associated companies or (as the case may be) its predecessor;
- (m) reviewing the accounting auditor's management letter, any material queries raised by the auditor to the senior management about accounting records, financial accounts or systems of control and the senior management's response;
- (n) ensuring that the Board will provide a timely response to the issues raised in the accounting auditor's management letter;
- (o) reporting to the Board on the matters set out in these rules;
- (p) where internal audit function exist, to ensure cooperation between the internal and independent auditors, to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness thereof:
 - the Audit Committee shall maintain close contact with the internal audit team of the Company and its subsidiaries to enable organized and effective oversight of the operations and financial conditions of the Company and its subsidiaries, as well as any other audit tasks;
 - providing instructions and assistance to the internal audit team upon receipt of a report from the same regarding any particular audit conducted thereby which, in the opinion of the Audit Committee requires verification; and

- where an audit support staff has provided instructions to the internal audit team or have received reports from the same, or under other similar circumstances, the Audit Committee shall formulate a system whereby such audit support staff shall report to the Audit Committee on the status and details of the relevant circumstances in a timely and appropriate manner.
- (q) reviewing and monitoring the effectiveness of the implementation of the whistle-blowing policy and other means that employees and those who deal with the Company can use, in confidence, to raise concerns about possible improprieties in any matters related to the Company and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action and ensuring the effectiveness of the internal control committee, a sub-committee of the Audit Committee;
- (r) acting as the key representative body for overseeing the Company's relation with its accounting auditors;

Oversight of the Company's corporate governance functions

- (s) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (t) reviewing and monitoring the training and continuous professional development of Directors and senior management;
- (u) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors;
- (v) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board and report to the Board on matters;
- (w) reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report;

- (x) reviewing and monitoring the Company's compliance with the Company's whistle-blowing policy; and
- (y) considering any other topics, as determined by the Board.

Litigation between the Company and its directors and Executive Officers

19. The Audit Committee may, by resolution, nominate a member thereof to represent the Company in litigation between the latter and any Director or executive officer thereof (including former directors and executive officers, but not including the members of the Audit Committee; the same below).
20. The Audit Committee member nominated by virtue of the preceding Paragraph shall represent the Company for the following purposes:
 - to receive a request from the Company's shareholders to initiate litigation proceedings for pursuing liability against a Director or executive officer;
 - to approve that demands for initiating the aforementioned legal action be effected electronically; and
 - to receive a notice of an action from the Shareholder(s) under Article 849(3) of the Companies Act or a settlement notice from the court under Article 850(2) of the Companies Act.

Reporting Responsibility and Right to Seek Injunctions

21. The Audit Committee shall report to the Board without undue delay in the event that it has come to its attention that any of the Company's directors or executive officers has engaged in, or are likely to engage in, misconducts that are actually or potentially in violation of the Company's articles of incorporation, or any applicable laws and regulations in Hong Kong and Japan.

22. The members of the Committee may demand an executive officer or Director to cease and desist any act that actually or potentially violates the Company's articles of incorporation, or any applicable laws and regulations in Hong Kong and Japan, in case where such act may cause material damages to the Company.

Post-Audit Review Activities

23. In connection with or following the completion of its review of the external audit and internal audit, the Audit Committee or its chairman may in their discretion meet with the accounting auditors, internal auditors or financial controller to discuss any changes required in the audit plans for future periods and any other appropriate matters regarding the audit process.

Failure to reach an agreement regarding accounting auditors

24. Where the Shareholders has taken a different view from the Audit Committee regarding the selection, appointment, resignation or dismissal of accounting auditors, the Audit Committee shall submit a statement to the Shareholders explaining its recommendation, which statement will be disclosed by the Company in the Corporate Governance Report in accordance with Appendix 14 of the Listing Rules.

Reporting procedures

25. Full minutes of the Audit Committee's meetings should be kept by the secretary of the head office of the Company. The minutes shall be available for inspection at any reasonable time on reasonable notice by any Director.
26. Minutes of meetings of the Audit Committee should record in sufficient detail the matters considered by the Audit Committee and decisions reached, including any concerns raised by the Directors, members or dissenting views expressed. Draft and final versions of minutes of such meetings should be sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after such meetings. The minutes of the meeting shall be signed and sealed or electronically signed, by all committee members present.

27. Without prejudice to the generality of the duties of the Audit Committee set out above, the Audit Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless there are legal or regulatory restrictions on doing so.

Provision of Rules

28. The Audit Committee should provide these rules upon request and upload it to the HKEx's website and the Company's website to explain the duties of the Audit Committee and the authority the Board has granted to it.

Approval of Disclosure Statements

29. The Audit Committee shall be responsible for approving all disclosure statements in relation to the Audit Committee, including but not limited to relevant disclosure statements in annual reports, interim reports and information uploaded on the HKEx's website and the Company's website.

Review of Rules

30. The Audit Committee shall review these rules annually, and may consider and submit to the Board any proposed changes that the Audit Committee deems appropriate or advisable.