

**KOWLOON DEVELOPMENT COMPANY LIMITED**  
**(“the Company”)**

**Terms of Reference**  
**of**  
**AUDIT COMMITTEE**  
**(“the Committee”)**

**1. Constitution**

The Board of Directors of the Company (“the Board”) resolved on 15 September 1998 to establish a committee of the Board known as the Audit Committee (hereinafter referred to as “the Committee”).

The Committee is established under delegation from the Board pursuant to Article 131 of the Company’s Articles of Association.

**2. Membership**

- 2.1 Members of the Committee shall be appointed by the Board from amongst the Non-executive Directors and shall consist of not less than three members. A majority of the members should be Independent Non-executive Directors and at least one of whom should have appropriate professional qualifications or accounting or related financial management expertise.
- 2.2 The Board shall nominate one of the Independent Non-executive Directors as the chairman of the Committee (“the Chairman”).
- 2.3 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Committee for a period of one year (a) from the date of his/her ceasing to be a partner of the firm; or (b) from the date of his/her ceasing to have any financial interest in the firm, whichever is later.

**3. Secretary**

- 3.1 The Company Secretary or such other person with appropriate qualification and experience as appointed by the Committee from time to time shall act as the Secretary of the Committee.

**4. Frequency and proceedings of meetings**

- 4.1 The Committee shall meet at least twice every year. Additional meetings shall be held as the work of the Committee demands.
- 4.2 The Chairman may convene additional meetings at his discretion.
- 4.3 The external auditors may request a meeting if they consider it necessary.
- 4.4 The quorum of a meeting shall be two members of the Committee who should be Independent Non-executive Directors.
- 4.5 The Committee may, from time to time, invite advisers or such other persons as may be deemed necessary, to attend meetings.
- 4.6 Representatives of the external auditors shall normally attend meetings. Other Board members may also participate.

- 4.7 At least twice a year the Committee shall meet with the external auditors without any Executive Directors being present except by invitation of the Committee.
- 4.8 Proceedings of meetings of the Committee shall be governed by the provisions of Article 133 of the Articles of Association of the Company.

## **5. Annual General Meeting**

- 5.1 The Chairman or another member of the Committee shall attend the Company's annual general meeting and be available to answer questions at the annual general meeting.

## **6. Authority**

- 6.1 The Committee is authorized by the Board to investigate any activity within the 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.
- 6.2 The Committee may seek independent professional advice in appropriate circumstances to discharge its duties with approval from the Board.  
*(Note: Arrangement to seek professional advice could be made through the Company Secretary.)*
- 6.3 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 and also the reason(s) why the Board has taken a different view.
- 6.4 The Committee should be provided with sufficient resources to perform its duties.
- 6.5 the Committee should 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 to act as the key representative body for overseeing the Company's relations with the external auditor.

## **7. Responsibilities, powers and functions**

The responsibility of the Committee is to assist the Board in considering how it will apply the financial reporting and internal control principles and for maintain an appropriate relationship with the Company's external auditors. The Committee shall have the following responsibilities, powers and functions:

### ***Relationship with the Company's external auditors***

- 7.1 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;
- 7.2 to review and monitor the external auditors' independence and objectivity;
- 7.3 to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor the nature and scope

of the audit and reporting obligations before the audit commences;

- 7.4 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. 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***

- 7.5 to monitor integrity of the Company’s financial statements and annual report and accounts, half-year report and, if prepared for publication, 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 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 the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and legal requirements in relation to financial reporting;

- 7.6 Regarding 7.5 above:-

- (i) Members of the Committee should liaise with the Board and senior management;
- (ii) the Committee must meet, at least twice a year, with the Company’s external auditors; and
- (iii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports 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 person performing the same duties) or external auditors;

***Oversight of the Company’s financial reporting system and internal control procedure***

- 7.7 to review the Company’s financial controls, internal control and risk management systems;

- 7.8 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;

- 7.9 to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 7.10 where an internal audit function exists, 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;
- 7.11 to review the financial and accounting policies and practices of the Company and its subsidiaries;
- 7.12 to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and management's responses;
- 7.13 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 7.14 to report to the Board on the matters in the terms of reference; and
- 7.15 to consider other topics, as requested by the Board.

## **8. Reporting procedures**

- 8.1 Minutes of meetings of the Committee shall be kept by the Secretary. Draft and final versions of minutes of the meeting shall be circulated to all Committee members for their comments and records within a reasonable time after the meeting. Such minutes shall be opened for Directors' inspection.
- 8.2 The Secretary shall circulate the minutes of meetings of the Committee to other members of the Board.
- 8.3 The Committee shall report back to the Board on its decisions and recommendations, unless there are legal or regulatory restrictions on its ability to do so.

## **9. Disclosures in the Annual Report to Shareholders**

- 9.1 The role and function of the Committee.
- 9.2 The composition of the Committee and whether it comprises Independent Non-Executive Directors, Non-Executive Directors and Executive Directors (including their names and identifying the Chairman).
- 9.3 The number of meetings held by the Committee during the year to discuss matters and the record of attendance of members, by name, at meetings held during the year.
- 9.4 At least annually, the Committee should present a report to the Board on how it met its responsibilities in its review of the quarterly (if prepared for publication), half-yearly and annual results and internal control system, and its other duties set out in the Code of Corporate Governance Practices of the Listing Rules. Details of non-compliance with rule 3.21 of the Listing Rules (if any) and an explanation of the remedial steps taken by the Company to address non-compliance with establishment of the Committee.

## **10. Publication of the Terms of Reference**

- 10.1 The terms of reference explaining the Committee's role and the authority delegated to it by the Board will be posted on both the website of the Company([www.kdc.com.hk](http://www.kdc.com.hk)) and the Stock Exchange's website. A copy of the terms of reference will be made available to any person without charge upon request.

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(These Terms of Reference approved by the Board on 2 December 2011.)