

KOWLOON DEVELOPMENT COMPANY LIMITED
(“the Company”)

**Terms of Reference
of
AUDIT COMMITTEE**

1. Constitution

- 1.1 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”).
- 1.2 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 must be appointed by the Board from amongst the Non-executive Directors and the Committee must comprise a minimum of three members. The majority of the Committee members must be Independent Non-executive Directors, at least one of whom with appropriate professional qualifications or accounting or related financial management expertise.
- 2.2 The Board must 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 should be prohibited from acting as a member of the Committee for a period of two years from the date of the person ceasing (a) to be a partner of the firm; or (b) 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 must meet at least twice a year. Additional meetings should be held as the work of the Committee demands.
- 4.2 The Chairman may convene additional meetings at his/her 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.
- 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 Other Board members may attend meetings.

4.7 Proceedings of meetings of the Committee shall be governed by the provisions of Article 133 of the Articles of Association of the Company.

5. General Meetings

5.1 Members of the Committee should attend the Company's general meetings and be available to respond to questions and enquiries in relation to their work at the general meetings.

6. Authority

6.1 The Committee is authorised by the Board to investigate any activity within the terms of reference. 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.

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 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 financial reporting, risk management and internal control principles and maintaining an appropriate relationship with the Company's auditors. The Committee should have the following responsibilities, powers and functions:-

Relationship with the Company's 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 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;

7.3 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

- 7.4 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 ("the Listing Rules") and legal requirements in relation to financial reporting;
- 7.5 Regarding 7.4 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, risk management and internal control systems

- 7.6 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;
- 7.7 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 functions;
- 7.8 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;
- 7.9 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;
- 7.10 to review the financial and accounting policies and practices of the Company and its subsidiaries;

- 7.11 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;
- 7.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 7.13 to report to the Board on the matters in the terms of reference; and
- 7.14 to consider other topics, as requested by the Board;

Oversight of the Company's whistleblowing policy and system

- 7.15 to review any whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence and anonymity, about possible improprieties in any matters related to the Company; and
- 7.16 to ensure that a proper system is in place for fair and independent investigation of those whistleblowing reportings and for appropriate follow-up action and to act as one of and the ultimate body in handling the reportings.

8. Reporting procedures

- 8.1 Full minutes of the Committee meetings should be kept by the Secretary. Draft and final versions of minutes of the meeting should be sent to all members of the Committee for their comment and records, within a reasonable time after the meeting. Minutes of meetings of the Committee should also be open for inspection at any reasonable time on reasonable notice of any Director.
- 8.2 The Committee should report back to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

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 A summary of the work during the year, including a report on how the Committee met its responsibilities in its review of the quarterly (if relevant), half-yearly and annual results, the risk management and internal control systems, the effectiveness of the Company's internal audit function, and its other duties under the Corporate Governance Code 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 published on both the websites of the Company (www.kdc.com.hk) and Hong Kong Exchanges and Clearing Limited. A copy of the terms of reference will be made available to any person without charge upon request.

(These Terms of Reference approved by the Board on 25 November 2022)