

**KENFORD GROUP HOLDINGS LIMITED**  
**(the “Company”)**

Terms of Reference of the Audit Committee  
(the “Committee”)

Adopted by the Board of Directors on 29 April 2005  
with first revisions approved by the Board of Directors on 17 July 2009  
second revisions approved by the Board of Directors on 15 August 2011

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**Membership**

1. The Committee shall consist of four independent non-Executive Directors appointed by the board of directors (the “Board”) from time to time, at least one of whom, shall be independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) and the transitional procedures under rule 3.19 of the new Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).
2. The majority of the Committee must be independent non-executive directors of the Company.
3. The Board shall nominate one of the independent non-executive directors as the Chairman of the Committee.
4. The Company Secretary or a nominee shall act as the Secretary of the Committee.

**Frequency and proceedings of meetings**

5. The Committee shall meet at least twice every year. The Auditors may also request a meeting with the Committee if they consider that one is necessary. Additional meetings shall be held as the work of the Committee demands.
6. The head of finance and the head of internal audit (if any) of the Company and a representative of the external auditors of the Company (the “Auditors”) shall attend meeting of the Committee. Other members of the Board shall also have the right of attendance. The other members’ said right of attendance, however, is subject to the requirement that the Committee shall meet at least once a year with the Auditors without any executive Board members present at the meeting.
7. The chairman of the Committee may convene additional meetings at his discretion.
8. The quorum of a meeting shall be two members of the Committee.
9. The Committee may, from time to time, invite advisors to the meeting, including but not limited to external advisors or consultants to advise its members.
10. Proceedings of meetings of the Committee shall be governed by the provisions of Article 62 of the Articles of Association of the Company.

**Duties, powers and functions**

11. The Committee shall

Relationship with the Company’s auditors

- (a) be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- (b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendation as to the steps to be taken;

#### Review of financial information of the Company

- (d) monitor integrity of financial statements of the Company and the Company's 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 this regard, in reviewing the issuer's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Committee should focus particularly on:
  - (i) any change 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 Exchange Listing Rules and other legal requirements in relation to financial reporting;
- (e) In regard to (d) above:
  - (i) members of the Committee must liaise with the Board and senior management and the Committee must meet, at least once 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 such reports and accounts and must 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 with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualification and experience of staff of the Company's accounting and financial

reporting function, and their training programmes and budget;

- (h) to consider any finding of major investigations of internal control matters as delegate by the Board or in its own initiative and management's response;
- (i) where an internal audit functions 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 and effectiveness of the internal audit function;
- (j) to review the group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters set out in this code provision; and
- (n) to consider other topics, as defined by the Board.

#### **Reporting Procedures**

12. The secretary of the Committee shall circulate the minutes of meetings of the Committee to all members of the Board. The Committee shall report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report the findings and recommendations of the Committee to the Board.

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