

HOP FUNG GROUP HOLDINGS LIMITED
(“the Company”)

TERMS OF REFERENCE OF AUDIT COMMITTEE

Constitution

1. The Audit Committee (“the Committee”) was established by resolutions of the board of directors (the “Board” or “Directors”) on 4th September 2003.

Membership

2. The members of the Committee shall be appointed by the Board from among the non-executive Directors and shall consist of not less than three members.
3. The majority of the Committee members must be independent non-executive Directors and at least one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise.
4. 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 from the later of
 - (a) the date of his/her ceasing to be a partner of the firm; or
 - (b) the date of his/her ceasing to have any financial interest in the firm.
5. The chairman of the Committee shall be appointed by the Board and shall be an independent non-executive Director.

Attendance at Meetings

6. The head of accounting department, head of internal audit and representative(s) of the external auditor shall normally attend meetings. The Committee shall invite any appropriate person to attend the meeting whenever it is necessary. Other Board members shall also have the right of attendance.

Meetings

7. The company secretary shall act as the secretary of the Committee.
8. The Committee should meet at least two times a year. Additional meetings should be held as the work of the Committee demands.

9. The quorum of the Committee shall be two members.

Authorities

10. The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it required from any employee and all employees are directed to co-operate with any request made by the Committee.
11. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

12. The Committee shall have the following duties:

Relationship with the Company's external auditor

- (a) to be primarily responsible for making recommendation 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 question of resignation or dismissal of the auditor;
- (b) 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 external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to 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 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 any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

Review of the Company's financial information

- (d) to monitor integrity of the Company's financial statements, annual report and accounts, half-year report and quarterly report (if applicable), and to review any significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee shall 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 and legal requirements in relation to financial reporting;
- (e) with regard to (d) above:-
 - (i) members of the Committee must liaise with the Board and senior management, and the Committee must meet, at least twice a year, with the external auditor; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function or external auditor;

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 system;
- (g) to discuss the internal control system with the management to ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget;

- (h) to consider any major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (i) 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 the effectiveness of the internal audit function;
- (j) to review the Company'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 system 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 all matters in these terms of reference;
- (n) to 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 for appropriate follow-up actions; and
- (o) to consider other topics, as defined by the Board.

Reporting Procedures

- 13. The secretary shall circulate the agenda and the minutes and reports of meetings of the Committee to all members of the Board.
- 14. The Committee shall report to the Board on a regular basis. At the next Board meeting following a Committee's meeting, the Committee's chairman shall report the Committee's findings and recommendations to the Board.

Terms Available

15. The terms of reference of the Committee will be published on the websites of the Company 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.