

CHINA STAR ENTERTAINMENT LIMITED

Terms of Reference for Audit Committee

Constitution

1. The Board has resolved to establish a committee of the Board to be known as the Audit Committee with effect from 28 December 1998. The terms of reference for the Audit Committee was updated on 31 August 2005.

Membership

2. The Audit 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 whom should be independent. Currently, the Audit Committee has three members comprising three independent non-executive Directors, namely Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Leung Hok Man. A quorum shall be two members.
3. A former partner of the Company's existing auditing firm is prohibited from acting as a member of the Audit Committee for a period of one year commencing on the date of his ceasing:-
 - (a) to be a partner of the auditing firm; or
 - (b) to have any financial interest in the auditing firm,whichever is the later.
4. The chair of the Audit Committee shall be appointed by the Board and should be an independent Director.

Attendance at meetings

5. The Chief Financial Officer ("CFO") and/or Financial Controller and a representative of the external auditors shall normally attend meetings. However, at least once a year the Audit Committee shall meet with the external and internal auditors without executive Board members present.

Frequency of meeting

6. Meetings shall be held not less than four times a year. The external auditors may request a meeting if they consider that one is necessary.

Authority

7. The Audit Committee is authorized by the Board to investigate any activity within its 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 Audit Committee.

8. The Audit 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

9. The duties of the Audit Committee shall be:

Relationship with external auditor

- (a) to consider and make recommendation to the Board on the appointment, reappointment and removal of the external auditor and to approve the audit fee and the terms of engagement of the external auditor; and any questions of resignation or dismissal of that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with Hong Kong Financial Reporting Standards and the Group's accounting policies, to discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and ensure co-ordination where more than one audit firm is involved; and
- (c) to develop and implement policy on the engagement of an external auditor (which 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 having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) to supply non-audit services, to identify and report to the Board on any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

Review of financial information

- (d) to monitor integrity of financial statements of the Company and the Company's annual report and accounts and interim report, and to review significant financial reporting judgements contained in them. In reviewing the interim and annual financial statements before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgemental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards; and
 - (vi) compliance with stock exchange and legal requirements.

- (e) in conducting the review described in (d) above, members of the Audit Committee:-
 - (i) must liaise with the Board, senior management and the Company's qualified accountant and meet with the external auditors at least once a year to discuss problems and reservations arising from the interim and final audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary); and
 - (ii) 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 qualified accountant or external auditors;

Oversight of the 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;
- (h) to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response;
- (i) where an internal audit function exists, to review the company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (j) where an internal audit function exists, to review and monitor the effectiveness of the internal audit program, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (k) to consider the major findings of internal investigations of internal control matters and management's response;
- (l) to review the Company's financial and accounting policies and practices ;

- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to report to the Board on the matters set out in paragraph C.3.3 of the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (as amended from time to time); and
- (o) to consider other topics, as defined by the Board .

Procedures

10. The Company Secretary shall be the secretary of the Audit Committee. The secretary shall circulate the draft and final versions of the minutes of meetings and reports of the Audit Committee to all members for comments and records within a reasonable time after each meeting. The chair shall report in the forthcoming Regular Board Meeting any key decisions made and shall table before the Board an index of meetings and issued discussed. The chair, in consultation with the CFO or the Financial Controller and the secretary of the Audit Committee, should be primarily responsible for drawing up and approving the agenda of each Audit Committee meeting. The chair, with the assistance of the CFO or the Financial Controller shall ensure that all members shall have sufficient information in a timely manner to enable effective discussion at a Audit Committee meeting and be briefed of the issues arising at each Audit Committee meeting. The secretary shall record minutes of all duly constituted meetings of the Audit Committee. All minutes shall record in sufficient detail the matters considered, decisions reached or recommendations made and any concerns raised by any member, the external auditor including dissenting views of any member.

1 March 2007