

Hong Kong Ferry (Holdings) Company Limited
Terms of reference for the Audit Committee

1. Membership

- 1.1 Members of the Audit Committee (“the Committee”) shall be appointed by the Board of Directors from amongst the Non-Executive Directors of the Company and shall consist of not less than three members, a majority of whom should be independent non-executive directors. A quorum shall be two members.
- 1.2 The Chairman of the Committee shall be appointed by the Board of Directors and should be an independent non-executive director.
- 1.3 At least one of the members is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).
- 1.4 Appointments to the Committee shall be for a period of up to three years, which may be extended for such period as may be determined by the Board of Directors of the Company.
- 1.5 A former partner of the Company’s existing auditors, if appointed a director of the Company, shall not act as a member of the Committee for a period of 1 year commencing on the date of his/her ceasing:
- (a) to be a partner of the audit firm; or
 - (b) to have any financial interest in the firm, whichever is the later.

2. Secretary

- 2.1 The company secretary shall be the secretary of the Committee.

3. Quorum

- 3.1 The quorum necessary for the transaction of business shall be 2 members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4. Frequency of and attendance at Meetings

- 4.1 The Committee shall meet twice a year at appropriate times of the reporting and audit cycle and otherwise as required.
- 4.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as Chairman of the board, Chief Executive

Officer, other directors, the head of internal audit and the chief financial officer or representatives from the accounting finance function may be invited to attend all or part of any meeting as and when appropriate.

4.3 The external auditors will be invited to attend meetings of the Committee on a regular basis.

4.4 At least once a year the Committee shall meet with the external and internal auditors without the presence of executive directors.

5. Notice of Meetings

5.1 Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its members or at the request of the external auditors if they consider that one is necessary.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 7 days before the date of the meeting. Supporting papers shall be sent to the Committee members and to other attendances as appropriate, no later than 3 days before the date of the meeting (or such other period as agreed).

6. Minutes of Meetings

6.1 Minutes of the Committee meetings should record all the proceedings and resolutions in sufficient details.

6.2 Full minutes of the Committee meetings should be kept by the secretary of the Committee. Draft and final versions of minutes of the Committee meetings should be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

6.3 Minutes of meetings and reports of the Committee, once agreed shall be circulated to all members of the Board of Directors.

7. Annual General Meeting

7.1 The Chairman of the Committee shall attend the Annual General Meeting and prepare to respond to any shareholders' questions on the Committee's activities.

8. Duties

The Committee should carry out the following duties for the Company, its major subsidiaries and the group as a whole, as appropriate.

8.1 Relationship with the Company's auditors

The Committee shall:

- 8.1.1 be primarily responsible for making recommendation to the Board of Directors 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;
- 8.1.2 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;
- 8.1.3 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 of Directors, 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;

8.2 Review of financial information of the Company

The Committee shall:

- 8.2.1 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 Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board of Directors, the Committee should focus particularly on:-

- (i) any changes in accounting policies and practices;
- (ii) major judgemental 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 Listing Rules and other legal requirements in relation to financial reporting;

In regard to this paragraph 8.2.1 above:-

- (i) members of the Committee must liaise with the Company's Board of Directors, senior management and the person appointed as the Company's qualified accountant 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 qualified accountant, compliance officer or auditors;

8.3 Oversight of the Company's financial reporting system and internal control procedures

The Committee shall:

- 8.3.1 review the Company's financial controls, internal control and risk management systems;
- 8.3.2 discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- 8.3.3 consider any findings of major investigations of internal control matters as delegated by the Board of Directors or on its own initiative and management's response;
- 8.3.4 where an internal audit function exists, ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor the effectiveness of the internal audit function;
- 8.3.5 review the Group's financial and accounting policies and practices;
- 8.3.6 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;
- 8.3.7 ensure that the Board of Directors will provide a timely response to the issues raised in the external auditor's management letter;
- 8.3.8 report to the Board of Directors on the matters set out in the Code Provisions, Appendix 14 of the Listing Rules; and
- 8.3.9 consider other topics, as defined by the Board of Directors.

9 Reporting Responsibilities

- 9.1 The Chairman of the Committee shall report back to the Board of Directors of the Company on the Committee's decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.
- 9.2 The Committee shall make whatever recommendation to the Board of Directors it deems appropriate on any area within its responsibility where action or improvement is needed.
- 9.3 The Committee shall produce a report on the work performed by the Committee during the year in discharging its responsibilities in its review of the quarterly (if relevant), half-yearly and annual results and system of internal control, and its other duties set out in the Code Provisions, Appendix 14 of the Listing Rules.

10 Authority

- 10.1 The Committee is authorized by the Board of Directors to investigate any activity within its terms of reference and to seek any information it requires from any employee of the Company in order to perform its duties.
- 10.2 In connection with its duties, the Committee is authorized by the Board of Directors to have access to the Company's resources, including access to the senior management for assistance, and to obtain, at the Company's expense, professional advice or other kind of resources, in order to discharge its duties.

11 Other Matters

- 11.1 The Committee shall make available its terms of reference, explaining its role and the authority delegated to it by the Board of Directors of the Company on request and by including the information on the Company's website or by such means or method as may be required by the Code Provisions, Appendix 14 of the Listing Rules.
- 11.2 Where the Board of Directors 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 of Directors has taken a different view.