

KASEN INTERNATIONAL HOLDINGS LIMITED

AUDIT COMMITTEE TERMS OF REFERENCE APPROVED ON SEPTEMBER 26, 2005

1. Constitution

- 1.1 The board of directors (the “Board”) of Kasen International Holdings Limited (the “Company”) had resolved to establish a committee of the Board, namely, the audit committee (the “Committee”) for the purposes of, inter alia, reviewing the effectiveness of the financial reporting process and internal controls of the Company and its subsidiaries (collectively the “Group”) and maintaining an appropriate relationship with the Company’s auditors.
- 1.2 The Committee is to reconstitute from time to time in order to fully comply with the new requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. Membership

- 2.1 Members of the Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of which shall be independent non-executive directors. A quorum for meetings of the Committee shall be two members.
- 2.2 The chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.
- 2.3 At least one of the members of the Committee shall have appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.
- 2.4 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 1 year commencing on the date of his ceasing:-
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm,whichever is the later.

3. Attendance at meetings of Committee

- 3.1 The finance director (if any), the chief financial officer (if any), the head of internal audit (if any), and a representative of the external auditors shall normally attend meetings of the Committee. However, at least once a year the Committee shall meet with the external and internal auditors without executive directors of the Company present.

3.2 The Company Secretary of the Company shall be the secretary of the Committee. In the absence of the Company Secretary in any meeting of the Committee, a member of the Committee to be nominated by the other members of the Committee shall act as the secretary of that meeting.

4. Frequency of meetings

Meetings shall be held not less than twice a year and the Committee shall meet with the Company's auditors at least once a year. The external auditors or any members of the Committee may request a meeting if they consider necessary.

5. Proceedings of meetings

Unless otherwise specifically provided for in this terms of reference, all of the provisions of the articles of association of the Company regulating meetings and proceedings of the Board shall, mutatis mutandis, govern the meetings and proceeding of the Committee.

6. Authority

6.1 The Committee is authorised by the Board to investigate any activity within its terms of reference, and the executive directors of the Company shall ensure that members of the Committee are provided with full and unlimited access to all books and accounts of the Company. It is authorised to seek any information it requires from any employees, directors, consultants and advisers of the Company and all employees, directors, consultants and advisers are directed to comply with any reasonable requests of the Committee.

6.2 The Committee is authorised 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.

6.3 The Committee should be provided with sufficient resources to discharge its duties.

7. Duties

The duties of the Committee shall include the following:-

7.1 to make 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 questions of resignation or dismissal of that auditor;

7.2 to discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved, if possible;

- 7.3 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 7.4 to develop and implement policy on the engagement of an external auditor (including any entity that is under common control, ownership or management with the audit firm or any entity that having regard to all relevant information would reasonably be considered as part of the audit firm nationally or internationally) to supply non-audit services; to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken;
- 7.5 to monitor integrity of financial statements of the Company and to review annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports of the Company and to review significant financial reporting judgments contained in them before submission to the Board, focusing particularly on but not limited to:
- (a) any changes in accounting policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and
 - (f) compliance with the Listing Rules and other legal requirements in relation to financial reporting.
- 7.6 In regard to 7.5 above:-
- (a) members of the Committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the Committee must meet, at least once a year, with the auditors; and
 - (b) 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 qualified accountant, compliance officer or auditors of the Company;
- 7.7 to discuss problems and reservations arising from the interim and final audits and matters that the external auditors may wish to discuss (in the absence of management, where necessary);

- 7.8 to review the Company's financial controls, internal control and risk management systems;
- 7.9 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;
- 7.10 to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- 7.11 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;
- 7.12 to review the Group's financial and accounting policies and practices;
- 7.13 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;
- 7.14 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 7.15 to report to the Board on the matters set out in this terms of reference; and
- 7.16 to consider other topics, as defined by the Board.

8. Reporting procedures

The secretary shall send the draft and final versions of minutes of the Committee meetings to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting. Thereafter, the secretary shall circulate the minutes of meetings of the Committee to all members of the Board.