



CHINA STAR ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 326)

TERMS OF REFERENCE FOR AUDIT COMMITTEE ADOPTED ON 31 AUGUST 2005 AND AMENDED ON 30 MARCH 2012 AND 31 DECEMBER 2015

Constitution

1. The board of directors (the “**Board**”) of China Star Entertainment Limited (the “**Company**”) has resolved to establish a committee of the Board to be known as the Audit Committee.

Membership

2. The Audit Committee shall comprise a minimum of three members consisting non-executive directors only and a majority of which must be independent non-executive directors of the Company who shall meet and maintain the independence requirements from time to time as stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). At least one of them shall be 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 Listing Rules. 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 1 year from 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 later.
4. The Chairman of the Audit Committee shall be appointed by the Board and should be an independent non-executive director and in his/her absence, members present may elect any member to chair an Audit Committee meeting.

Attendance at meetings

5. The Chief Financial Officer 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 (2) times a year and special meetings may be called at the discretion of the Chair of the Audit Committee or at the request of the Board or senior management to review significant control or financial issues. The members may adopt from time to time the procedure governing the convening of the Audit Committee meetings, the means and procedure for the passing of resolutions at meetings of the Audit Committee. 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 and where necessary, to seek independent professional advices at the expense of the Company to assist the Audit Committee to perform its responsibilities.

Duties

9. The duties of the Audit Committee shall be:

Relationship with the Company's auditor

- (a) to be primarily responsible for making recommendations 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 its resignation or dismissal. Where the Board disagrees with the Audit 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 Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view;
- (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 Audit 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 engaging an external auditor to supply non-audit services. For this purpose, "external auditor" 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 knowing of all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters in respect of which it considers that action or improvement is needed;

Review of the Company's financial information

- (d) to monitor integrity of the Company's financial statements and annual report and accounts and interim report, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption and any qualifications;
 - (v) compliance with accounting standards, and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (e) Regarding (d) above:-
 - (i) members of the committee should liaise with the Company's Board and senior management and the Audit Committee must meet, at least twice 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 the reports and accounts, it should 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 financial reporting system, risk management and internal control procedures

- (f) to review the Company's financial controls, risk management and internal control systems;
- (g) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (h) to consider major investigation findings on risk management and 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 issuer, and to review and monitor the Company's effectiveness;
- (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 about 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 in paragraph C.3.3 of the Code on Corporate Governance in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time);
- (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 Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (o) to act as the key representative body for overseeing the Company's relations with the external auditor; and
- (p) to consider other topics, as defined by the Board.

Reporting Procedures

10. The minutes of the Audit Committee meetings should be kept by a duly appointed secretary of the meeting (who should normally be the company secretary). Draft and final versions of minutes of the meetings should be sent to all members of the Audit Committee for their comment and records within a reasonable time after the meeting.
11. The Audit Committee shall report to the Board on the matters set out in these Terms of Reference and the Code Provisions as and when necessary, and shall promptly report back to the Board on its decisions and recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

General

12. The Audit Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the websites of the Company and The Stock Exchange of Hong Kong Limited.
13. Where the Board disagrees with the Audit 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 Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

14. The Audit Committee should be provided with sufficient resources to perform its duties.
15. The Chairman of the Audit Committee or, in his/her absence, another member of the Audit Committee or failing this, his/her appointed delegate as invited by the Chairman for the Board should attend annual general meetings to answer any questions from the shareholder.