



GREENHEART GROUP LIMITED

綠心集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

(the “**Company**”)

TERMS OF REFERENCE OF AUDIT COMMITTEE (the “Committee**”)**

Purpose of the Committee

1. The Committee is a formally constituted Committee of the Board of the Directors (the “**Board**”), with written terms of reference which deal clearly with its authority and duties, to assist the Board of the Company in overseeing the effectiveness of the financial reporting process and the internal control system of the Company.
2. The Committee reports directly to the Board, identifying and making recommendations on any matters where action or improvement is needed.
3. The Committee provides a direct link between the Company’s external auditors and its Non-Executive Directors.
4. Committee members should be adequately remunerated to reflect the time, commitment and responsibility involved in serving on the Committee.

Responsibilities of the Committee

5. The principal responsibilities of the Committee are to:
- (a) serve as a focal point for communication between other directors, the external auditors and the internal auditors as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time;
 - (b) make recommendations to the Board on the appointment, reappointment and removal of the external auditors, and any matters regarding the resignation or dismissal of the external auditors;
 - (c) review and monitor the independence of the external auditors and the objectivity and effectiveness of the audit process in accordance with applicable standards;
 - (d) approve the terms of engagement and remuneration of the external auditors;
 - (e) discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
 - (f) satisfy itself that all key areas of risk to the business are properly addressed by external auditors. This may involve reviewing the current year's audit plan and discussing it with the external auditors, together with following up on the resolution of any prior year issues;
 - (g) 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 all relevant information would reasonably conclude to be part of the audit firm nationally or internationally.); and
 - (h) assist the Board in fulfilling its responsibilities by providing an independent review and supervision of the financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (the "**Group**"), and as to the adequacy of the external and internal audits.

Composition of the Committee

6. The Committee shall consist of not less than three members appointed by the Board, all of whom shall be Non-Executive Directors and a majority of whom shall be Independent Non-Executive Directors under the Rules Governing the Listing of Securities (the “**Listing Rules**”) in The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).
7. At least one member shall have the appropriate qualifications or experience in financial reporting.
8. The Board shall nominate one of the three members as the chairman of the Committee (the “**Chairman**”).
9. The company secretary of the Company or his/her nominee should be the secretary of the Committee.
10. A former partner of the Company’s existing external auditors shall be prohibited from acting as a member of the Committee for a period of two years from the date of the person ceasing:
 - (a) to be a partner of the external auditors; or
 - (b) to have any financial interest in the external auditors;whichever is later.

Quorum

11. The quorum of a meeting shall be two members of the Committee. The secretary of the Committee shall not be counted in the quorum present at the meeting.

Frequency and Proceedings of Meetings

12. The Committee should meet at least two times per year and may include Executive Directors such as company’s finance director and representatives of external auditors so as to respond to particular points of concerns. The external auditors may request a meeting if they consider that one is necessary.
13. Committee members should liaise with the Board and senior management and the Committee must meet, at least twice a year with the external auditors.
14. The Chairman of the Committee may convene additional meetings at his discretion. Additional meetings should be held as the work of the Committee demands.

15. Minutes of each meeting will be taken and an agenda circulated with necessary papers of review at least 3 days prior to the date of the meeting.
16. Proceedings of meeting of the Committee shall be governed by the provisions of Bye-law 110 of the Bye-laws of the Company.
17. A resolution in writing signed by all members of the Committee shall be as valid and effective as if it has been passed at a meeting of the Committee duly called and constituted.
18. The Committee may hold the meeting by means of telephone or similar communication equipment by means of which all persons participating in the meeting are capable of hearing each other.

Private Meeting

19. At least one private meeting is held by the Committee each year with the external auditors without any Executive Directors being present.

Authority of the Committee

20. The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with any request made by the Committee. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary. All the professional charges of the above services should be settled by the Company.
21. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
22. Where the Board 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 in the Annual Report a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different view.
23. The Committee is to be provided with sufficient resources to discharge its duties.

Duties, Powers and Functions

24. The Committee is to:

- (a) consider the appointment of the external auditors, the performance of the external auditors, the audit fee, and any questions of resignation or dismissal;
- (b) review with the Group's management, external auditors and internal auditors, the adequacy of the Group's policies and procedures regarding internal controls (including financial, operational and compliance controls) and any statement by the directors to be included in the annual accounts prior to endorsement by the Board;
- (c) have familiarity with the financial reporting principles and practices applied by the Group in preparing its financial statements;
- (d) (prior to its commencement), review the nature and scope of the external audit, including the engagement letter. The Committee should understand the factors considered by the external auditors in determining their audit scope. The external auditors' fee is to be negotiated by management, and presented to the Committee for review and approval annually;
- (e) monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus 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 assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (f) review the draft representation letter prior to approval by the Board;
- (g) evaluate the cooperation received by the external auditors, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditors to the Group's needs; inquire the external auditors as to whether there have been any disagreements with management which if not satisfactorily resolved would result in the issue of a qualified report on the Group's financial statements;

- (h) obtain from the external auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including non-audit services and requirements regarding rotation of audit partners and staff;
- (i) meet with the external auditors, at least annually, in the absence of management, to discuss matters relating to its audit fees and any issues arising from the audit and any other matters the auditor may wish to raise;
- (j) review the external auditors' draft management letter including any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (k) ensure that the Board will provide a timely response to issues raised in the external auditors' management letter;
- (l) review the scope and results of internal audit procedures, 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 Group, and to review and monitor its effectiveness;
- (m) review the Group's financial and accounting policies and practices;
- (n) develop and implement policy on the engagement of the external auditors to perform non-audit services, which are in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditors due to their unique expertise in a particular area, the prior approval of the Committee is required;
- (o) review and discuss with management the scope and quality of systems of internal control, financial controls and risk management;
- (p) apprise the Board of significant developments in the course of performing the above duties;
- (q) recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (r) review and consider the major findings of internal investigations on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

- (s) 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 is to ensure proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up action;
- (t) act as the key representative body for overseeing the Company's relations with the external auditor;
- (u) discuss problems and reservations arising from the interim and final audits, and any matters the external auditors may wish to discuss;
- (v) 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;
- (w) review and discuss the Company's systems of risk management and internal control with management to ensure that they are appropriate and functioning properly and the management has performed its duty to have effective systems. The discussion should cover the:
 - (i) adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
 - (ii) effectiveness and efficiency of operations;
 - (iii) reliability of internal and external reporting; and
 - (iv) compliance with applicable laws and regulations and internal policies;
- (x) develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (y) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (z) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;
- (aa) review the Company's compliance with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules and disclosure in the interim and annual reports of the Company;
- (bb) review and monitor the training and continuous professional development of directors and senior management of the Company;

- (cc) monitor management's progress on implementing any new key financial reporting standards, and to stay updated with tax legislature and regulatory developments in relation to financial reporting; and
- (dd) consider other topics, as defined by the Board from time to time.

Reporting Procedures

- 25. Full minutes of audit committee meetings should be kept by the secretary of the Committee. Draft and final versions of the minutes of meetings should be sent to all members of the Committee for their comment and records within a reasonable time after the meeting.
- 26. The secretary of the Committee shall circulate the minutes of meetings of the Committee to all members of the Board.
- 27. Committee members may inspect the minutes of the Committee meetings at any reasonable time on any reasonable notice.
- 28. The Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the Chairman of the Committee shall report to the Board on the findings and recommendations of the Committee. At least annually, the Committee should present a report to the Board which addresses the work and findings of the Committee during the year.

Note: If there is any inconsistency between the English and Chinese versions of this terms of reference, the English version shall prevail.