

Broad Greenstate International Company Limited

博大綠澤國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Terms of Reference for Audit Committee

Constitution

1. The Board has established a committee known as the Audit Committee (“**Committee**”).

Composition

2. The Audit Committee shall consist of at least three members, all of whom shall be non-executive directors and the majority of them shall be independent non-executive directors. At least one independent non-executive director in the Audit Committee shall comply with the requirements of Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”). Such independent non-executive director shall have appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2), including any subsequent amendment thereof, of the Listing Rules. At least two members shall attend Committee meetings.
3. Any former partner of the existing auditing firm responsible for auditing the Company’s account is prohibited from acting as a member of the Committee for a period of one year from the date of his ceasing:
 - (a) to be a partner of such firm; or
 - (b) to have any financial interest in such firm,whichever is later.
4. The initial term of a member shall be three years, which may be extended by the Board.
5. The initial members of the Committee are:

Zhang Qing (*Chairman*)
Dai Guoqiang
Wang Xiaohong
6. The chairman of the Committee shall be appointed by the Board and be acted by an independent non-executive director. In his absence, member present shall elect any one of the members to chair a Committee meeting.

Attendance at meetings

7. The deputy chief financial officer and the representative of the external auditors shall normally attend meetings. However, at least twice a year the Committee shall meet with the external and internal auditors without the presence of the executive directors and the management of the Company. The secretary of the Board of the Company (or such other person as appointed by the chairman of the Committee) shall be the secretary of the Committee and in his/her absence, such other person appointed by the chairman of the Committee shall act as the secretary of the relevant Committee meetings (“**Secretary**”).

Frequency and procedures of meetings

8. Meetings shall be convened at least twice a year and extraordinary meetings may be convened at the discretion of the chairman of the Committee or at the request of the Board or the senior management to review significant control or financial issues. The external auditors may request a meeting if they consider that one is necessary.
9. Unless otherwise agreed, notice of each meeting shall be given to each member of the Committee and any other person required to attend no later than seven days prior to the date of the meeting, on which the venue, time and date, together with an agenda of the issues to be discussed shall be stated. Other supplemental documents shall be forwarded to the members of the Committee in the meantime.
10. Unless amended with these terms of reference or by a resolution of the Committee, the procedures of the Committee’s meetings shall be preceded in accordance with the provisions of the Articles of Association in respect of the procedures for meetings of Directors.
11. Resolutions of the Committee meetings shall be passed by vote of two-third of the entire members of the Committee, each of whom shall have one vote. Vote in respect of resolutions of the Committee meetings shall be taken by a show of hands or a poll.
12. The members may adopt from time to time the procedures governing the convening of the Committee meetings, the means and procedure for the passing of resolutions at meetings of the Committee.

Authority

13. The Committee is authorized by the Board to deal with 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 Committee.
14. The Company shall provide the Committee with sufficient resources to perform its duties. The Committee is authorized by the Board to obtain outside legal or other independent professional advice at the expense of the Company and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Communication

15. The Audit Committee shall have sufficient means for communication with the management and may invite management personnel or other persons to attend its meetings. It may also consult with the chairman and/or the chief executive officer of the Company for advice in respect of its recommendations on financial reporting and internal control issues, and the relationship between the Company and its auditors.

Duties

16. The duties of the Committee shall be:

Relationship with external auditors

- (a) to consider and make recommendation to the Board on (i) the appointment, reappointment and removal of the external auditors; (ii) the audit fee and the terms of engagement of the external auditors; and (iii) any issues of resignation or dismissal of that auditor, taking into account the quality and rigor of the audit, the quality of the audit service provided, the auditing firm's quality control procedures, relationships between the external auditors and the Company, and the independence of the auditors;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards issued from time to time by the Hong Kong Institute of Certified Public Accountants; to discuss with the external auditors before the audit commences, the nature and scope of the audit and reporting obligations, and to ensure co-ordination where more than one audit firm is involved;
- (c) to develop and implement policy on engaging 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 knowing of all relevant information would reasonably conclude to be part of the audit firm nationally or internationally) to supply non-audit services, to report to the Board, identifying any matters where action or improvement is needed, and to make recommendations on steps that should be taken;

Review of financial information

- (d) to monitor integrity of the Company's financial statements and annual report and accounts, interim report and quarterly financial highlights (or quarterly reports when required by the Listing Rules or when deemed appropriate by the Company), and to review quarterly (as the case may be) significant financial reporting judgments contained in them. Before submission of these statements and reports 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 assumption of the entity and any qualification;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal requirements in respect of financial reporting;
- (e) in conducting the review described in (d) above, members of the Committee:
 - (i) must liaise with the Board and senior management and meet with the auditors at least twice a year to discuss problems and qualified opinion arising from the interim and final audits, and any other matters the auditors may wish to discuss (in the absence of the 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 staff responsible for the accounting and financial reporting function, compliance officer(s) or 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 the internal control system with the management to ensure that the management has performed its duty to have an effective internal control system. The discussion should include adequacy of resources, staff qualifications and experience, staff training programmes and budget for the Company's accounting and financial reporting function;
- (h) to consider major investigation findings on internal control matter on its own initiative or as delegated by the Board and management's response to these findings;

- (i) to ensure co-ordination between the internal and external auditors if the internal audit function of the Company is established, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and to review and monitor its effectiveness;
- (j) to review the Company's financial and accounting policies and practices;
- (k) to review the external auditors' management letter, any material enquiries raised by the auditors to the management about accounting records, financial accounts or systems of control, and management's response;
- (l) to review the Company's statement on its internal control systems (where one is to be included in the annual report) prior to endorsement by the Board;
- (m) to review and monitor the effectiveness of the internal audit programme, 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;
- (n) to consider any major internal investigations findings of internal control matters as delegated by the Board or on its own initiative and the management's response;
- (o) to review the Company's financial and accounting policies and standards;
- (p) to ensure that the Board will make a timely response to the issues raised in the external auditors' management letter;
- (q) to report to the Board on the matters set out in paragraph C.3.3 of the Corporate Governance Code (the latest version shall prevail); and
- (r) to consider other topics as defined by the Board.

Relationship with the Company's staff

- (s) to review the following matters set up by the Company: employees of the Company and its subsidiaries can report their concerns about any irregularities, on a confidential basis, identified in relation to financial reporting, internal control and other matters. The Committee should ensure that appropriate arrangements are in place to allow any reported matters be investigated on a fair and independent basis and appropriate actions be taken;
- (t) to act as the key representative body between the Company and the external auditors for overseeing the Company's relationship with the external auditors.

Other matters

17. The chairman of the Committee, in consultation with the Secretary of the Committee, should be responsible for drawing up and approving the agenda of each Committee meeting. The chairman of the Committee, with the assistance of the deputy chief financial officer of the Company, shall ensure that all members shall have sufficient information in a timely manner to enable effective discussion at a Committee meeting and be briefed on the issues raised at each Committee meeting.
18. The Secretary shall record minutes of all duly constituted meetings of the 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 auditors and the deputy chief financial officer of the Company including dissenting views of any member. The Secretary shall circulate the draft and final versions of the minutes of meetings and reports of the Committee to all members for comments and records within a reasonable time after each meeting.
19. The chairman of the Committee shall report at the forthcoming regular Board meeting any key decisions and recommendations made and shall table before the Board an index of meetings and issues discussed unless there are legal or regulatory restrictions on its ability to do so, such as restrictions on disclosure by regulatory requirement.
20. The Committee should make available its terms of reference explaining its role and the authority delegated to it by the Board.
21. The Committee shall be provided with sufficient resources to perform its duties.
22. Unless otherwise defined, terms and expressions used herein shall have the same meanings as defined in the Corporate Governance Code manual of the Company.