

**COASTAL** 沿海  
**COASTAL GREENLAND LIMITED**  
沿海綠色家園有限公司\*  
*(Incorporated in Bermuda with limited liability)*  
(Stock Code: 01124)

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

The following revised terms of reference of the Audit Committee (“Committee”) were adopted by the board of directors (“Board”) of Coastal Greenland Limited (“Company”) on 23 December 2005 to supersede the terms adopted on 26 August 1999.

**1. Constitution**

The Committee was established by a resolution passed at the Board meeting on 26 August 1999.

**2. Membership**

- (a) All member of the Committee shall be appointed and removed by the Board and the Committee shall consist of not less than three members, a majority of whom should be independent non-executive directors of the Company. A quorum shall be two members.
- (b) The Chairman of the Committee shall be appointed and removed by the Board and shall be an independent non-executive director of the Company.

**3. Attendance at Meetings**

- (a) The Finance Director and/or the Financial Controller, representatives of external auditors shall attend meeting. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditors and internal auditors without executive Board members present.
- (b) The Company Secretary shall be the secretary of the Committee.

**4. Meetings**

- (a) Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.
- (b) Notice of any Committee meeting shall be given at least five (5) days prior to any such meeting, unless all members of the Committee unanimously waive such notice. Irrespective of the length of notice being given, attendance of a Committee meeting by a member of the Committee shall be deemed waiver of the requisite length of notice by the member of the Committee.

- (c) Agenda and Committee papers shall be sent to members of the Committee at least three (3) days before the intended Committee meeting.
- (d) Meetings could be held in person, by telephone or by video conference. Members of the Committee may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.
- (e) Resolutions of the Committee at any Committee meetings shall be passed by majority votes of the members of Committee present.
- (f) A resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a Committee meeting duly convened and held.
- (g) Minutes shall be kept by the secretary of the Committee. Draft and final versions of minutes of the Committee meetings shall be circulated to all members for their comment and records respectively, in both cases within a reasonable time after the Committee meeting is held. Such minutes shall be open for inspection by any director of the Company.

## **5. Authority**

- (a) The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- (b) 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.
- (c) Any amendments to this Terms of Reference shall be approved by the Board.

## **6. Duties**

The duties of the Committee shall be:

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal 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 standard. The audit committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences;

- (c) to develop and implement policy on the engagement of an external auditors to supply non-audit services. For this purpose, external auditors 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 audit committee should report to the Board, 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;
- (d) to act as the key representative body for overseeing the Group's relation with the external auditors;
- (e) to monitor integrity of financial statements of the Group and the Group's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Group's annual report and accounts, half-year report and, if prepared for publication, quarterly 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 audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and other legal requirements in relation to financial reporting;
- (f) In regard to (e) above: -
  - (i) members of the committee must liaise with the Group's Board, senior management and the person appointed as the Group's qualified accountant and the committee must meet, at least once a year, with the Group'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 Group's qualified accountant, compliance officer or auditors;
- (g) to review the Group's financial controls, internal control and risk management systems;

- (h) 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;
- (i) 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;
- (j) where an internal audit function exists, to ensure coordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor the effectiveness of the internal audit function;
- (k) to review the Group's financial and accounting policies and practices;
- (l) to review the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (n) to review arrangements by which employees of the Group may, in confidence, 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 the fair and independent investigation of such matters and for appropriate follow-up action;
- (o) to report to the Board on the matters set out in provision of the Code on Corporate Governance Practices as included in the Listing Rules; and
- (p) to consider other topics, as defined by the Board.

## **7. Reporting Procedures**

- (a) The Committee should report to the Board on its proceedings at the next meeting of the Board following a meeting of the Committee on all matters within its duties and responsibilities.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

\* For identification purpose only