



中國水務集團有限公司*

China Water Affairs Group Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 855)

AUDIT COMMITTEE TERMS OF REFERENCE

1. Constitution

The board of directors of the Company (the “Board”) hereby constitutes and establishes an audit committee (the “Audit Committee”) with the authority, responsibility, and specific duties as described below.

2. Membership

2.1 The members of the Audit Committee (the “Members”) shall be appointed by the Board and shall consist of not less than three (3) members comprising non-executive directors.

2.2 The majority of the members of the Audit Committee shall be independent non-executive directors and at least one of whom is 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 Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2.3 The Board shall appoint the chairman of the Audit Committee who must be an independent non-executive director. A quorum shall be two (2) Members.

2.4 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a Member for a period of two (2) years from 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 later.

* For identification purpose only

3. Responsibility

- 3.1 The function of the Audit Committee is to assist the Board to provide an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Company and its subsidiaries (the “Group”), to oversee audit process, to oversee the environmental, social and governance (“ESG”) matters and to perform other duties and responsibilities as assigned by the Board.
- 3.2 The Audit Committee shall serve as a focal point for communication between other directors, the external auditors, and the management as their duties relate to financial and other reporting, risk management and internal control systems, and the audits.
- 3.3 The Audit Committee shall report its findings in the annual and interim reports of the Company when:
- (a) the findings reveal any significant or material costs or damages to the Company;
 - (b) the findings reveal any material non-compliance with laws and regulations or standard principles of accounting; or
 - (c) the findings reveal any potential significant or material risks to the Company.

4. Authority

The Audit Committee is granted the authority by the Board to investigate any activity within its terms of reference and all employees of the Company are directed to cooperate as requested by the Members. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice if necessary, at the Company’s expense, to assist the Audit Committee and shall be provided with sufficient resources by the Company to perform its duties.

5. Duties

The duties of the Audit Committee include:

Relationship with the Company’s auditors

- (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 shall include in the Corporate Governance Report a detailed explanation of the Audit Committee’s view and the reasons for the Board to have taken such 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 shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; and
- (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 all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee shall report to the Board and shall identify and make recommendations on any matters where 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, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Audit Committee shall 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 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 to paragraph 5(d):
 - (i) the Members shall liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and it shall 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 Company's financial reporting, risk management and internal control systems

- (f) to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Company's 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 shall 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 or external professionals engaged to review risk management and internal control systems of the Company, to review the relevant internal audit programme, to ensure co-ordination between the internal auditor (or the external professional reviewer on risk management and internal control systems of the Company), and external auditor, and to 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 financial and accounting policies and practices of the Group;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or risk management and internal control systems 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 set out in the code provisions contained in Appendix 14 Corporate Governance Code to the Listing Rules (as amended from time to time);
- (n) to consider other topics, as defined by the Board from time to time;

- (o) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management and internal control systems or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor; and
- (q) to review the Company's statement and disclosure on risk management and internal control systems (where one is included in the annual report) prior to endorsement by the Board.

Oversight of the Company's ESG matters

- (r) identify ESG issues that are relevant and significant to the operations of the Company and/or substantially affect the shareholders and other key stakeholders, to ensure compliance with the relevant legal and regulatory requirements (including but not limited to the Environmental, Social and Governance Reporting Guide and the Listing Rules of the Stock Exchange);
- (s) review, develop and adopt management approaches, strategies, priorities, objectives, policies and governance structure of the Company's ESG matters, and make relevant recommendations to the Board and implement the policies, approaches and governance structure established by the Board;
- (t) monitor, review and evaluate the effectiveness and adequacy of actions taken by the Company to implement management approaches, strategies, priorities, measures, objectives and policies for ESG matters, and make relevant recommendations to the Board on the implementation of ESG objectives and measures;
- (u) monitor, review and evaluate the effectiveness and adequacy of actions taken by the Company to implement management approaches, strategies, priorities, measures, objectives and policies for ESG matters, to ensure compliance with the legal and regulatory requirements (including but not limited to the Environmental, Social and Governance Reporting Guide and the Listing Rules of the Stock Exchange);
- (v) monitor, review and evaluate the ESG performance of the Company by adopting the appropriate international or national standards (if applicable) as key performance indicators;

- (w) review, evaluate and report to the Board about the related ESG risks and opportunities of the Company, develop corresponding objectives based on the risks and opportunities, and monitor and review progress achieved on a regular basis, including but not limited to environmental risks (including climate change, water resources and emissions) and social risks (including employment, supply chain and corruption);
- (x) review and ensure that the Company has an appropriate and effective ESG risk management and internal control systems in place;
- (y) develop, review and monitor codes of conduct and compliance manuals, if any, applicable to the directors and employees of the Company on ESG matters;
- (z) review and monitor the training and continuous professional development of the directors and senior management on ESG matters;
- (aa) evaluate, review and report to and recommend the Board on the effectiveness of the policies, management and performance of the Company's material ESG matters at least once annually and as and when necessary;
- (ab) review the disclosure on the performance of ESG matters of the Company and make recommendations to the Board, including but not limited to:
 - (i) review the ESG reports to ensure its accuracy and recommend the Board to approve the ESG reports, and propose specific actions or decisions to the Board for consideration, so as to maintain the integrity of the ESG reports; and
 - (ii) review the disclosure on ESG matters of the Company whether by way of inclusion in its annual report or a separate report in compliance with the relevant legal and regulatory requirements (including but not limited to the Environmental, Social and Governance Reporting Guide and the Listing Rules of the Stock Exchange).

6. Frequency of Meetings

- 6.1 The Audit Committee shall meet at least twice a year.
- 6.2 The external auditors may request a meeting if they consider that one is necessary.

7. Attendance

7.1 As necessary or desirable, the chairman of the Audit Committee may request that members of management and representatives of the external auditors be present at meetings of the Audit Committee. Other directors of the Board shall also have the right of attendance. However, at least once a year, the Audit Committee shall meet with the external auditors without executive directors of the Board present.

7.2 Meetings can be held by way of telephone conference.

8. Secretary

The company secretary of the Company (the “Company Secretary”) shall be the secretary of the Audit Committee.

9. Minutes

9.1 Minutes of the Audit Committee meetings shall be kept by the Company Secretary and draft and final versions of minutes of the meetings shall be circulated to all Members for their comments and records within a reasonable time after the meeting.

9.2 The Company Secretary shall circulate the minutes of meetings of the Audit Committee to all directors of the Board.

10. Annual General Meeting

The chairman of the Audit Committee shall endeavor to attend the annual general meetings of the Company and be prepared to respond to any questions from the shareholders of the Company relating to the Audit Committee’s activities.

11. General

The Audit Committee should make available this Terms Of Reference, explaining its role and the authority delegated to it by the Board by including it on the Stock Exchange’s website and the Company’s website.

Adopted on 29 February 2012 and updated and effective from 29 November 2021.