

CHINA EVERBRIGHT WATER LIMITED

Company Registration Number 34074

(Incorporated in Bermuda)

AUDIT COMMITTEE TERMS OF REFERENCE

1. INTRODUCTION

- 1.1 The Code of Corporate Governance 2018 (the “**Code**”) and the listing manual (“**Singapore Listing Manual**”) of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) require companies listed on the SGX-ST to establish a audit committee (the “**AC**”) which reports to the board of directors (the “**Board**”, each individual director is herein referred to as the “**Director**”) of China Everbright Water Limited (the “**Company**”), with written terms of reference which clearly set out the authority and duties of the AC.
- 1.2 The Corporate Governance Code at Appendix 14 of the Rules Governing the Listing of Securities (the “**HK Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**HKEx**”) (the “**HK CGC**”) recommends companies listed on the HKEx to set up a AC which reports to the Board.
- 1.3 The AC was established by the Board in accordance with the terms of reference approved by the Board.
- 1.4 The AC provides a basis for achieving and maintaining appropriate balance and independence in the relationship between the Company’s management and the Company’s internal and external auditors¹ in carrying out their work.

2. OBJECTIVES

- 2.1 The main objective of the AC shall be to assist the Board in fulfilling its fiduciary responsibilities to the Company and each of its subsidiaries (collectively, the “**Group**”) and to ensure that management has created and maintained an effective control environment in the Company, and that the management demonstrates and stimulates the necessary aspect of the internal controls structure among all parties. In addition to pursuing this goal, the AC shall:
 - (i) Oversee and appraise the quality of the audit of the Company’s internal audit function and of its external auditors. Pursuant to the Singapore Listing Manual, the Company must establish and maintain on an ongoing basis, an effective internal audit function that is adequately resourced and independent of the activities it audits.

¹ 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.

- (ii) Serve as an independent and objective party to review the Company's financial information, including financial statements, annual reports and accounts, interim reports and if prepared for publication, quarterly reports, presented by management to shareholders, regulators and the general public.
- (iii) Examine the adequacy of the Company's administrative and operating controls, as well as internal accounting controls and evaluate adherence.
- (iv) Review and report annually to the Board on the adequacy and effectiveness of the Company's accounting policies, risk management, internal controls, information technology controls, financial reporting practices and business policies.
- (v) Monitor management's commitment to the establishment and maintenance of a robust and effective system of risk management and internal controls addressing financial, operational, compliance and information technology risks (including any arrangements for internal audit).

2.2 As a sub-committee of the Board, the AC provides a channel of communication between the Board, management, the internal auditors and the external auditor, on matters arising out of the internal and external audits.

3. DUTIES AND RESPONSIBILITIES

The duty of the AC shall be:

3.1 To review the significant financial reporting issues and judgments and monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports and any announcements relating to the company's financial performance.

In reviewing these reports before submission to the Board, the AC 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 HK Listing Rules, the HK CGC, the Singapore Listing Manual and legal requirements in relation to financial reporting.

Regarding the above, (i) members of the AC should liaise with the Board and senior management and the AC must meet, at least twice a year, with the Company's auditors and (ii) the AC should consider any significant or unusual items that are, or may need to be, reflected in the report 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.

- 3.2 To review the Group's key financial risk areas, with a view to providing an independent oversight on the Group's financial reporting, the outcome of such review to be disclosed in the annual reports or where the findings are material, immediately announced via SGXNet and the website of the HKEx, as applicable.
- 3.3 To be primarily responsible for making recommendation to the Board on the appointment, re-appointment 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 AC's view on the selection, appointment, resignation or dismissal of the external auditor, the Company should include in the corporate governance report a statement from the AC explaining its recommendation and also the reason(s) why the Board has taken a different view.

- 3.4 To develop and implement policy on engaging an external auditor to supply non-audit services, and report, identify and make recommendations to the Board on any matters where actions or improvement is needed. The AC should ensure the external auditor's provision of non-audit services does not impair its independence or objectivity.

When assessing the external auditor's independence or objectivity in relation to non-audit services, the AC may wish to consider:

- (i) whether the skills and experience of the audit firm make it suitable supplier of non- audit services;

- (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non- audit services;
 - (iii) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and
 - (iv) criteria for compensation of the individuals performing the audit.
- 3.5 To review with the external auditor the audit plan and their evaluation of the system of internal accounting controls and monitor management’s response and actions to correct any noted deficiencies.
- 3.6 To approve the actual internal audit plan and recommend the annual external auditor’s budget.
- 3.7 To ensure co-ordination between the internal and external auditor and to ensure the internal audit function is adequately resourced and has appropriate standing within the Company. The internal audit function could be (i) undertaken by an in-house unit, (ii) outsourced to a reputable accounting or auditing firm or (iii) undertaken by the internal audit staff of the Company’s major shareholder, holding company, parent company or controlling enterprise.
- 3.8 The AC should, at least annually, review and monitor the adequacy and effectiveness of the internal audit function, including determination whether the internal auditor has direct and unrestricted access to the chairman of the Board (the “**Chairman**”) and AC, and is able to meet separately to discuss matters/concerns.
- 3.9 To review with the internal auditors, the scope and results of the internal audit and monitor management’s response to their findings to ensure that appropriate follow-up measures are taken.
- 3.10 To review and report to the Board at least annually on the adequacy and effectiveness of the Company’s internal controls, including financial, operational, compliance and information technology controls and risk management systems (such review can be carried out internally or with the assistance of any competent third parties), which shall cover the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group’s accounting and financial reporting function.

- 3.11 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.
- 3.12 To review the Group's financial and accounting policies and practices, and keep abreast of changes in accounting standards and issues which have a direct impact on financial statements.
- 3.13 To review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response, and to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- 3.14 To evaluate the effectiveness of both the internal and external audit function and efforts through regular meetings.
- 3.15 To determine that no unwarranted management restrictions are being placed upon either the internal or external auditor.
- 3.16 To report to the Board summarizing all the work performed by the AC in carrying out its functions.
- 3.17 To review and approve interested person transactions and connected transactions, and review procedures thereof.
- 3.18 Have explicit authority to investigate any matter within its Terms of Reference, full access to and co-operation by management and full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.
- 3.19 To review the policy and arrangement by which employees of the Company and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC shall ensure that proper arrangements are in place for such concerns to be raised and independently investigated, and for appropriate follow-up action to be taken.

- 3.20 Where the AC deems necessary or as delegated by the Board, to commission and review the findings of internal investigation into matters where there is any suspected fraud or irregularity or failure of internal controls or suspected fraud or irregularity or failure of internal controls or suspected infringement of any relevant laws, rules and regulations which has or likely to have a material impact on the Company's or the Group's operating results and/or financial position, and management's response, and to consider the management's response to these findings.
- 3.21 To review and monitor the independence and objectivity of the external auditor and the effectiveness of the audit process in accordance with applicable standards. The AC should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.
- The AC shall disclose the aggregate amount of fees paid to the external auditor for that financial year and a breakdown of the fees paid in total for audit and non-audit services respectively, or an appropriate negative statement, in the Company's annual report. Where the auditors also supply a substantial volume of non-audit services to the Company, the AC shall keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.
- 3.22 To review co-operation given by the management to the external auditors and the internal auditors and to act as the key representative body for overseeing the Company's relations with the external auditor.
- 3.23 To undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the AC and matters in the HK CGC.
- 3.24 To ensure that the internal auditor's primary line of reporting should be to the chairman of the AC (the "**AC Chairman**") although the internal auditor would also report administratively to the chief executive officer of the Company.
- 3.25 To review and approve the appointment, and evaluation of the head of the internal audit function, or the accounting/auditing firm or corporation to which the internal audit function is outsourced.

- 3.26 To review potential conflicts of interest, if any, including reviewing and considering transactions in which there may be potential conflicts of interests between the major shareholder, controlling shareholder (as defined under the HK Listing Rules), interested/connected persons (as defined under the HK Listing Rules) and recommend whether those who are in a position of conflict should abstain from participating in any discussions or deliberations of the Board or voting on resolutions of the Board in relation to such transactions as well as to ensure that proper measures to mitigate such conflicts of interest have been put in place.
- 3.27 To review the rectification measures and internal control measures relating to regulatory issues involving the Company's licences/permits/certificates etc.
- 3.28 To review the investments in our customers, suppliers and competitors made by the Directors, controlling shareholders of the Company and their respective associates who are involved in management of the Company or have shareholding interests in similar or related business of the Company and make assessments on whether there are any potential conflicts of interests and ensuring that proper measures to mitigate such conflicts of interests have been put in place.
- 3.29 To monitor the implementation of outstanding internal control recommendations and/or observations highlighted by the external auditor in the course of their audit of the statutory financial statements.
- 3.30 To establish a whistleblowing policy and system for employees and those who deal with the Company (eg. customers and suppliers) to raise concerns, in confidence, with the AC about possible improprieties in any matter related to the Company, and to review whistle-blowing investigations within the Company and ensuring appropriate follow-up action, if required.
- 3.31 To review and oversee the implementation of the measures in respect of the legal representatives of the subsidiaries incorporated in People's Republic of China.
- 3.32 To undertake such other functions and duties as may be required by the relevant statutes or the Singapore Listing Manual or HK Listing Rules or HK CGC, and by such amendments made thereto from time to time.

- 3.33 The AC will meet with the external auditor and/or internal auditors separately at least once a year without the presence of the management to review the management's level of cooperation and other matters that warrants the AC's attention.
- 3.34 To review, monitor and assess independence of the external auditor annually. Steps to consider include:
- (i) Seek reassurance that the auditors and their staff have no family, financial, employment, investment, or business relation with the Group (other than in the normal course of business).
 - (ii) Obtain from the audit firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and
 - (iii) Meet with the auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.
 - (iv) Agree with the Board the Company's policies on hiring employees or former employees of the external auditor and monitoring the application of these policies. The AC should then be in a position to consider whether there has been or appears to be any impairment of the auditor's judgment or independence for the audit.
- 3.35 In order to facilitate the AC to discharge its responsibilities, the management of the Company shall assist and provide the AC with access to the information relating to the Company.
- 3.36 In the event that a member of the AC has interest in any matter being considered by the AC, he will abstain from reviewing and deliberating on that particular transaction or voting on that particular resolution.
- 3.37 To conduct an annual assessment of its performance against its Terms of Reference duties and responsibilities and provide a report of the findings to the Board.

4. APPOINTMENT

4.1 The Board shall annually confirm the membership of the AC which shall comprise at least three (3) members, of whom:

- (i) all members should be non-executive Directors and majority of whom, including the AC Chairman, should be independent non-executive Director;
- (ii) the majority should not be a spouse, parent, brother, sister, son or adopted son or daughter or adopted daughter of an executive Director of the Company or of any related corporation;
- (iii) the majority should not be any person having a relationship which, in the opinion of the Board would interfere in the exercise of his independent judgment in carrying out the functions of the AC; and
- (iv) at least one (1) member shall have appropriate professional qualifications or accounting or related financial management expertise or experience as required under rule 3.10(2) of the HK Listing Rules.²

4.2 The AC Chairman, who shall be elected by its members, shall be an independent non- executive Director.

4.3 The AC should be appropriately qualified to discharge their responsibilities and to take measures to keep abreast of changes in accounting standards and issues which have direct impact on financial statements. Collectively, the AC should have broad business experience, knowledge of the operations, finance and auditing procedures of the Company and its subsidiaries as well as commitment and available time. At least two (2) members of the AC, including the AC Chairman, shall have accounting or related financial management expertise or experience, as the Board interprets such qualification in its business judgment.

² With regard to “appropriate accounting or related financial management expertise”, the HKEx would expect the person to have, through experience as a public accountant or auditor or as a chief financial officer, controller or principal accounting officer of a public company or through performance of similar functions, experiences with internal controls and in preparing or auditing comparable financial statements or experience reviewing or analyzing audited financial statements of public companies. It is the responsibility of the Board to determine on a case-by-case basis whether the candidate is suitable for the position. In making its decision, the Board must evaluate the totality of the individual’s education and experience.

- 4.4 The Board shall consider whether a Director is independent in accordance with the provisions of the HK Listing Rules and the Code. In the event of differences between the HK Listing Rules and the Code, the Board shall comply with the more onerous rule and/or requirement.
- 4.5 On appointment, and thereafter, every member of the AC shall submit an annual confirmation as to his independence. Such confirmations shall be submitted to the Board within two (2) months after the close the financial year of the Company.
- 4.6 A member of the AC shall notify the AC immediately, of any change in circumstances that may result in him not being able to meet the criteria for independence. The Board may, after considering the change in circumstances, require the resignation of the member of the AC.
- 4.7 If a member of the AC for any reason ceases to be a member of the AC with the result that the number of members of the AC is reduced to below three (3), the Board shall, within three (3) months of that event, appoint such number of new members of the AC having such qualifications to meet the statutory requirements.
- 4.8 A former partner or director of the Company's existing auditing firm or auditing corporation should be prohibited from acting as a member of the AC for a period of two (2) years from the date of the person ceasing (a) to be a partner of the auditing firm or director of the auditing corporation; and (b) to have any financial interest in the auditing firm or auditing corporation, whichever is later.
- 4.9 A member of the AC who wishes to retire or resign from the AC shall notify the Board in writing, giving at least one (1) month's notice.
- 4.10 The office of a member of the AC shall become vacant upon the member's resignation/retirement/removal or disqualification as a Director of the Company.
- 4.11 New members of the AC shall receive an induction covering the AC's Terms of Reference, and be provided with an overview of the Company's internal control organization and risk management systems.
- 4.12 The appointment of the members of the AC may be revoked, or additional members may be appointed to the AC by separate resolutions passed by the Board and by the AC, subject to and/or taking into consideration the recommendations from the nominating committee of the Company.

5. ADMINISTRATION

5.1 Meetings

- (i) The meetings of the AC may be conducted by means of telephone conferencing or other methods of simultaneous communication by electronic or telegraphic means whereby all persons participating in the meeting can hear each other and participation in a meeting in this manner shall be deemed to constitute presence in person at such meeting provided that all decisions made are confirmed in writing by all members of the AC who participated in the said telecommunication discussion.
- (ii) The meetings of the AC shall be held at least two times a year. Special meetings may be called, when necessary, by any member of the AC, the internal auditors or the external auditor. These meetings should be held:
 - (a) prior to the commencement of the annual external audit;
 - (b) prior to the Board's approval of the quarterly (if applicable), interim and full year results; and
 - (c) after the completion of the annual external audit and prior to the Board's approval of the final results.
- (iii) The AC shall meet: (a) with the external auditors to discuss, including but not limited to, matters relating to audit fees, any issues arising from the audit and any other matters the external auditors may wish to raise; and (b) with the internal auditors, in each case without the presence of management, at least annually.
- (iv) The AC shall have full discretion with regard to the calling of the meetings and the proceedings thereat and may invite any Director, representatives of internal auditors, representative of external auditor or management to their meetings.
- (v) The external auditors or the head of internal audit may request a meeting if they consider that a meeting is necessary.

- (vi) Except as otherwise provided in these Terms of Reference, meetings should be attended by:
 - (a) financial director/chief financial officer/finance manager/financial controller (where applicable) of the Company;
 - (b) head of internal audit; and
 - (c) representative of external auditors.
- (vii) The AC Chairman shall chair all meetings. If at any meeting the AC Chairman is not present within ten (10) minutes after the time appointed for holding the meeting, the members present may choose one of the other independent members to be chairman of the meeting.
- (viii) The secretary of the Company, failing whom his/her representative, shall attend all AC meetings and minute the proceedings thereof including providing an attendance record of individual members present at all meeting.
- (ix) Draft and final versions of the minutes shall be confirmed by the chairman of the meeting and circulated to all members of the AC for their comment and records, within a reasonable time after the meeting. The minutes are to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting.
- (x) If the AC Chairman so decides, the minutes shall be circulated to other members of the Board. Any Director may, provided that there is no conflict of interest and with the agreement of the chairman, obtain copies of minutes of the AC meetings.

5.2 Notice

The notice of each meeting of the AC, confirming the venue, time and date and enclosing an agenda of items to be discussed, shall other than under exceptional circumstances be forwarded to each member of the AC not fewer than three (3) working days prior to the date of the meeting. The members of the AC may, however, consent to shorter notice whereupon the requisite period shall be waived.

5.3 Quorum

The quorum shall be two (2) members.

5.4 Voting

Each member present shall have one vote. All resolutions passed in the meeting shall be by majority votes. If the votes for and against a resolution are equal, the chairman of the meeting shall have a casting vote.

Any member who has an interest in any matters being reviewed or considered by the AC shall abstain from voting on that matter.

5.5 Written resolutions

A resolution in writing signed by all the members of the AC shall be as valid and effectual as if it had been passed at a meeting of the AC duly convened and held. Any such resolution may consist of several documents in like form, each signed by one or more members. The expressions “in writing” and signed include approvals by facsimile, telex, cable or telegram.

5.6 Reporting

- (i) The Company must describe in its annual report its corporate governance practices with specific reference to the principles and the provisions of the Code. The Company must comply with the principles of the Code. Where the Company’s practices vary from any provisions of the Code, it must explicitly state, in its annual report, the provision from which it has varied, explain the reason for variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.
- (ii) The AC Chairman shall report, from time to time, on the proceedings of the AC to the Board by way of submission of minutes of the AC meetings or by such other mode as the AC Chairman shall in his discretion deems fit.
- (iii) The AC shall report regularly to the Board on the exercise of its duties, and on the outcome of its reviews and discussions with the external auditor and the internal auditors and their findings on any suspected fraud or irregularity, or suspected infringement of any Singapore or Hong Kong law, rules and regulations, which has or is likely to have material impact on the operating results or financial position of the Company, as well as identifying those matters which it considers require action or improvement, and making recommendations as to the step to be taken.

- (iv) The AC shall, after each AC meeting, send the Board a report on its findings and recommendations.
- (v) To include a report on how the AC met its responsibilities in its review of the quarterly (if applicable), half-yearly and annual results and unless expressly addressed by a separate risk committee, or the Board itself, its review of the risk management and internal control systems, the Company's internal audit function and whether such internal audit function is independent, effective and adequately resourced, and its other duties under the HK CGC and the Singapore Listing Manual in the Company's corporate governance report in the annual report.
- (vi) The Board shall ensure that the following (and such other information as may be required by the HK CGC and the Code from time to time) are disclosed in the Company's annual report and in the corporate governance report:
 - (a) the name of the members of the AC and the key Terms of Reference of the AC explaining its role and authority delegated, summary of all the AC activities;
 - (b) the aggregate amount of fees paid to external auditor for the financial year, the breakdown of fees paid in audit and non-audit;
 - (c) the summary of AC activities conducted during the year;
 - (d) the number of AC meetings held in that year;
 - (e) the attendance of each of the members of the AC at such meetings;
 - (f) measures taken by the members of the AC to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements;
 - (g) whistleblowing policy and procedures for raising such concerns; and
 - (h) an opinion of the Board, concurrence with the AC, on the adequacy and effectiveness internal controls addressing financial, operational, compliance and information technology risks together with informed assessment and procedures carried out by the AC and the Board.

- (vii) The AC Chairman (or in his absence, another member of the AC) shall attend the Company's general meeting and be prepared to answer questions concerning matters falling within the scope of the AC.

6. POWERS OF THE BOARD

The Board may, subject to compliance with the constitution of the Company, the HK Listing Rules, HK CGC, the Singapore Listing Manual and the Code, amend, supplement and revoke these Terms of Reference.

7. GENERAL

- 7.1 The AC in carrying out its tasks under these Terms of Reference may obtain at the Company's expense such external or other independent professional advice as it considers necessary to carry out its duties and to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements. The AC should ensure that the independence and objectivity of its appointed consultants are not affected.
- 7.2 The Board will ensure that the AC has access to internal and external professional advice in order for it to perform its duties. The AC should be provided with sufficient resources to perform its duties.
- 7.3 Any member of the AC may initiate amendments to its Terms of Reference when the need arises due to changes in the relevant rules or when there are changes in the Company's structure, organisation and/or operations which affect the matters set out in the Terms of Reference.
- 7.4 Amendments to the Terms of Reference shall be submitted to the AC for consideration and tabled at a Board meeting for approval.