



**CANVEST ENVIRONMENTAL PROTECTION  
GROUP COMPANY LIMITED**

**粵豐環保電力有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1381)**

**(the “Company”)**

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**TERMS OF REFERENCE OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS**

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**1. Constitution**

The Audit Committee (the “**Committee**”) is established pursuant to a resolution passed by the Board of Directors (the “**Board**”) of the Company on 7 December 2014.

**2. Membership**

- 2.1 The Committee shall be appointed by the Board from amongst the non-executive directors of the Company only and shall consist of not less than three members. A majority of the members shall be independent non-executive directors of the Company and at least one of whom shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise required in Rule 3.10(2) of the Rules (the “**Listing Rules**”) governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).
- 2.2 Each appointment to the Committee shall be for a period of up to 3 years.
- 2.3 A former partner of the Company’s existing external auditing firm shall be prohibited from acting as a Committee member for a period of 2 years from the date of his ceasing (i) to be a partner of the firm; or (ii) to have any financial interest in the firm, whichever is later.

- 2.4 The appointment of the members and secretary of the Committee may be revoked, or additional members may be appointed to the Committee by separate resolutions passed by the Board.

**3. Chairman**

- 3.1 The chairman of the Committee (the “**Chairman**”) shall be appointed by the Board and shall be an independent non-executive director of the Company.

- 3.2 The Chairman shall chair the meetings of the committee.

- 3.3 In the absence of the Chairman, the remaining members present shall elect one of themselves to chair the meeting of the Committee.

- 3.4 The Chairman shall attend the annual general meeting of the Company and be prepared to respond to any questions from the shareholders on the Committee’s activities.

**4. Secretary**

- 4.1 The secretary of the Committee (the “**Secretary**”) shall be appointed by the Board.

- 4.2 The Secretary or his/her delegate shall attend meetings of the Committee to take minutes.

- 4.3 In the absence of the Secretary, the members present shall elect another person as the Secretary.

**5. Frequency and proceedings of meetings**

- 5.1 The Committee shall meet not less than 2 times per year. The Chairman may convene additional meetings at his/her discretion.

- 5.2 The Committee must hold one meeting prior to each of the meetings of the Board at which the annual financial report and the interim financial report of the Company will be considered and if thought fit, approved, respectively.

- 5.3 The chief financial officer, the head of internal audit (where an internal audit function exists), and a representative of the external auditors shall normally attend meetings of the Committee. The executive directors of the Company shall have the right of attendance.
- 5.4 The Committee shall meet with the external auditors of the Company not less than 2 times per year. At least one of the said meetings shall be held in the absence of the management of the Company.
- 5.5 The external auditors may request a meeting if they consider that one is necessary.
- 5.6 Resolutions of the Committee at any meeting shall be passed by a majority of votes of the members present. In the case of equality of votes, the Chairman shall have a second or casting vote.
- 5.7 Written resolutions may be passed by all members of the Committee in writing. This provision is without prejudice to any requirement under the Listing Rules for a Committee meeting to be held.

## **6. Quorum**

- 6.1 A quorum necessary for the transaction of business of the Committee shall be two members.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflict of interest and minute them accordingly. The relevant member of the Committee shall not be counted towards the quorum and he/she must abstain from voting on any resolutions of the Committee in which he/she and/or his/her associates have a material interest.
- 6.3 A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

**7. Attendance at meetings**

- 7.1 Members of the Committee may attend meetings of the Committee either in person or through other electronic means of communication.
- 7.2 Should any member of the Committee wish to attend a meeting of the Committee through electronic means of communication, prior arrangements shall be made with the Secretary.

**8. Notice of Meetings**

- 8.1 Meeting of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members.
- 8.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and other supporting documents, shall be sent to each member of the Committee, and to any other person required to attend:
- (a) in relation to all regular meetings of the Committee, at least 14 days before the date of the meeting;
  - (b) in relation to all other meetings of the Committee, within a reasonable time prior to the date of the meeting.
- 8.3 Notice shall be given to each member of the Committee, and to any other person required to attend, in person orally or in writing or by telephone or by facsimile transmission or email at numbers or addresses from time to time notified to the Secretary by such member of the Committee or in such other manner as such member of the Committee may from time to time determine.
- 8.4 Any notice given orally shall be followed by confirmation in writing before the meeting of the Committee.
- 8.5 Any member of the Committee shall be entitled, by notice to the Secretary, to include other matters relevant to the functions of the Committee in the agenda of a meeting of the Committee.

**9. Alternate members**

A member of the Committee may not appoint any alternate.

**10. Authority**

10.1 The Committee may exercise the following powers:

- (a) to seek any information it requires from any employee of the Company and its subsidiaries (the “**Group**”) and any professional advisers (including external auditors), to require any of them to prepare and submit reports and to attend meetings of the Committee and to supply information and answer questions raised by the Committee;
- (b) to monitor whether the Group’s management has, in the performance of its duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Listing Rules and other rules and regulations from time to time prescribed by the Stock Exchange and/or laid down by the Board or a committee thereof);
- (c) to investigate all suspected fraudulent acts involving the Group and request management to make investigation and submit reports;
- (d) to review the Group’s internal control procedures and system;
- (e) to review the performance of the Group’s employees in the accounting and internal audit department;
- (f) to make recommendations to the Board for the improvement of the Group’s internal control procedures and system;
- (g) to request the Board to convene a shareholders’ meeting for purposes of revoking the appointment of any director and to dismiss any employees if there is evidence showing that the relevant director and/or employee has failed to discharge his/her duties properly;

- (h) to request the Board to take all necessary actions, including convening a extraordinary general meeting, to replace and dismiss the external auditors of the Group;
- (i) to obtain outside legal or other independent professional advice, at the Company's expense, and to secure the attendance of independent third parties with relevant experience and expertise if it considers this necessary; and
- (j) to exercise such powers as the Committee may consider necessary and expedient so that their duties under section 11 below can be properly discharged.

10.2 The Committee should be provided with sufficient resources to perform its duties.

## **11. Duties**

11.1. 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 auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal.
- (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 Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.
- (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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

- (d) to monitor integrity of the Company's financial statements and annual reports and accounts, half-year reports 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 Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgemental 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 Listing Rules and legal requirements in relation to financial reporting.
- (e) Regarding (d) above:
  - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors; and
  - (ii) the Committee 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;
- (f) to review the Company's financial controls, and unless expressly addressed by a separate risk committee of the Board, or by the Board itself, to review the Company's risk management (including ESG risks) and internal controls;

- (g) to discuss the risk management and internal control systems with management and to ensure that management has performed its duty to have effective internal control systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, financial reporting function, as well as those relating to the Company's ESG performance and reporting;
- (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, 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, and to review and monitor its effectiveness;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control 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 in these terms of reference, and to explain its role and the authority delegated to it by the Board by including them on the Stock Exchange's website and the Company's website;
- (n) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions;
- (o) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (p) to consider other topics, as defined by the Board from time to time.



## **12. Minutes of meetings**

- 12.1 The Secretary, or his/her delegate, in attendance at the meetings of the Committee shall minute in sufficient detail the proceedings and resolutions of all such meetings, including the names of those present and in attendance. The minutes should also include any concerns raised by any member of the Committee and/or dissenting views expressed.
- 12.2 Once they are agreed, the Secretary shall circulate the minutes and reports of the Committee to all members of the Committee and to all members of the Board.
- 12.3 Full minutes of Audit Committee meetings should be kept by the Secretary. Draft and final versions of minutes of the meetings should be sent to all committee members for their comment and records, within a reasonable time after the meeting.

## **13. Reporting Responsibilities**

- 13.1 The Chairman shall report formally to the Board on proceedings after each meeting on all matters within its duties and responsibilities as well as its decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.
- 13.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its authority where action or improvement is needed.
- 13.3 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 a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
- 13.4 The Chairman, or in the absence of the Chairman, a member, or failing this his duly appointed delegate, shall attend the annual general meeting of the Company and make himself available to respond to any questions from the shareholders of the Company on the Committee's activities and responsibilities.

## **14. Continuing applications of the constitutional documents of the Company**

The constitutional documents of the Company regulating the meetings and proceedings of the directors of the Company so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Committee.

**15. Power of the Board**

The Board may, subject to compliance with the constitutional documents of the Company and the Listing Rules, amend, supplement and revoke these terms of reference provided that no amendments to and revocation of these terms of reference shall invalidate any prior act and resolution of the Committee which would have been valid if such terms of reference had not been amended or revoked.

**16. Others**

- 16.1 The Committee shall have access to sufficient resources in order to perform its duties. In the event that the Committee determines that it has insufficient resources, it may make a request for additional resources to the Chairman. If the request for additional resources is denied, the Committee may, if it chooses, make a request to the Board through the Secretary. The Board shall convene a Board meeting as soon as reasonably practicable to consider the request.
- 16.2 All members of the Committee shall have access to the advice and services of the Secretary with a view to ensuring that procedures of the Committee and all applicable laws, rules and regulations are followed.
- 16.3 In the event that the Committee or any member of the Committee requires access to independent professional advice in connection with his/her duties, a request may be made to the Secretary. All such requests shall be processed in accordance with the Company's pre-defined procedures for seeking independent professional advice at the Company's expense.

- 16.4 At the expense of the Company, every newly appointed member of the Committee shall be given a comprehensive, formal and tailored induction on the first occasion of his/her appointment, and subsequently such briefing and professional development as is necessary, to ensure that he/she has a proper understanding of the operations and business of the Company and that he/she is fully aware of his/her responsibilities as a member of the Committee.
- 16.5 Every member of the Committee shall give sufficient time and attention to his/her duties as a member of the Committee. He/she shall give the Company the benefit of his skills and expertise through regular attendance and active participation.
- 16.6 The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **17. Language**

If there is any inconsistency between the English version and the Chinese version, the English version shall prevail.

Adopted on: 24 December 2014  
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