



上海匯舸環保科技集團股份有限公司
CONTIOCEAN ENVIRONMENT TECH GROUP CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2613)

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

Chapter 1 General Provisions

- Article 1 Pursuant to the Company Law of the People's Republic of China (the "**Company Law**"), the Articles of Association of ContiOcean Environment Tech Group Co., Ltd. (the "**Articles of Association**"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**") and other relevant regulations, ContiOcean Environment Tech Group Co., Ltd. (the "**Company**") hereby formulated these terms of reference, in an effort to optimize the meeting and decision-making procedures of the audit committee (the "**Audit Committee**") of the board of directors of the Company and ensure smooth progression of various types of work of the Audit Committee.
- Article 2 The Audit Committee is a specific committee set up by the board of directors. Its main responsibilities are to supervise and inspect the internal and external audits and the internal control system of the Company.
- Members of the Audit Committee shall ensure that they have sufficient time and efforts to discharge their duties in the Audit Committee, be diligent and responsible, earnestly and effectively supervise the external audit of the Company, guide the internal audit of the Company, and procure the Company to establish an effective internal control and provide true, accurate and complete financial reports.
- Article 3 The Company shall provide necessary working conditions for the Audit Committee and designate specific personnel or entities to deal with daily work, including liaison, organization of committee meetings, preparation of materials and documentation management, of the Audit Committee. The management and the relevant departments of the Company shall cooperate with the Audit Committee when it performs its duties.

Chapter 2 Composition

- Article 4 The Audit Committee shall comprise at least three members, all of whom shall be non-executive directors and a majority of whom shall be independent non-executive directors, with at least one independent non-executive director possessing the appropriate professional qualifications or accounting or related financial management expertise as required under the Hong Kong Listing Rules.
- Article 5 Members of the Audit Committee shall be nominated by the chairman/ chairlady of the board of directors, more than half of the independent non-executive directors or one-third of all directors, and shall be elected by the board of directors.
- Article 6 The board of directors shall evaluate the independence and performance of the members of the Audit Committee on a regular basis, and replace the member who is not suitable to remain in the position when necessary. A former partner of the Company's existing audit firm shall be prohibited from acting as a member of the Audit Committee for a period of two years from the date he or she ceases (a) to be a partner of the audit firm; or (b) to have any financial interest in the audit firm, whichever is later.
- Article 7 The Audit Committee shall have a chairperson (the “**Chairperson**”) to be served by an independent non-executive director and appointed by the board of directors to take charge of the work of the Audit Committee.
- Article 8 The term of office of the Audit Committee shall be the same as that of the board of directors. Each member of the Audit Committee shall be eligible for re-election upon expiry of his or her term of office. During such period, if any member of the Audit Committee member ceases to be a director of the Company, his or her membership in the Audit Committee shall lapse automatically, and the vacancy shall be filled by the person elected by the board of directors according to these terms.

Chapter 3 Duties and Authorities

- Article 9 The responsibilities of the Audit Committee shall include the following:
- (I) to supervise and evaluate the work of the external auditor;
 - (II) to guide the internal audit work;
 - (III) to oversee the effectiveness of financial reporting system, risk management and internal control system;
 - (IV) to review the Company's financial report and express opinions thereon;
 - (V) to perform the corporate governance functions of the Company;

- (VI) to coordinate the communication between the management, internal audit department and relevant departments and the external auditor; and
- (VII) other matters as authorized by the board of directors of the Company and as required with relevant laws and regulations.

Article 10

The responsibilities of the Audit Committee for supervising and evaluating the work of the external auditor shall at least include the following:

- (I) to be primarily responsible for making recommendations to the board of directors 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 handle any issues related to its resignation or dismissal;
- (II) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (III) to develop and implement policy on the engagement of an external auditor to provide non-audit services. For this purpose, "external auditor" 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; and
- (IV) to report to the board of directors on any matters where action or improvement is needed, identify the issues and make recommendations thereon.

Article 11

The responsibilities of the Audit Committee for overseeing the Company's financial reporting system, risk management and internal control systems shall at least include the following:

- (I) to review the Company's financial controls, and unless expressly addressed by a separate risk committee under the board of directors, or by the board of directors itself, the risk management and internal control systems of the Company;

- (II) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to develop effective systems. This discussion shall include the adequacy of resources, staff qualifications and experience, training programs and budget in respect of the Company's accounting and financial reporting functions;
- (III) to consider major investigation findings on risk management and internal control matters on its own initiative or as delegated by the board of directors and management's response to these findings;
- (IV) 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 Company, and to review and monitor its effectiveness;
- (V) to review the Company's financial and accounting policies and practices;
- (VI) to review the external auditor's management letter, any material queries raised by the external auditor to management about the accounting records, financial accounts or risk management and control systems and management's response;
- (VII) to ensure that the board of directors will provide a timely response to the issues raised in the external auditor's management letter;
- (VIII) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (IX) to review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate action by the Company;
- (X) to report to the board of directors on the matters in the code provisions under Appendix 14 of the Hong Kong Listing Rules;
- (XI) to study other topic assigned by the board of directors; and
- (XII) where the board of directors disagrees with the Audit Committee's opinion on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the board of directors has taken a different view.

Article 12 The responsibilities of the Audit Committee for reviewing the Company's financial reports and expressing opinions thereon shall at least include the following:

- (I) to monitor the integrity of the Company's financial statements, annual report and accounts, half-year report and quarterly reports (if prepared for publication), and to review relevant significant opinions on financial reporting contained therein. In reviewing these statements and reports before submission to the board of directors, the Audit Committee should focus particularly on:
 - (a) any changes in accounting policies and practices;
 - (b) areas involving significant judgements;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and
 - (f) compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting; and
- (II) Regarding item (I) above:
 - (a) members of the Audit Committee shall liaise with the board of directors and senior management of the Company. The Audit Committee must meet, at least twice a year, with the Company's external auditor; and
 - (b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and should give due consideration to any matters that have been raised by the Company's staff with accounting and financial reporting function, compliance officer or external auditors.

Article 13 The responsibilities of the Audit Committee for performing the Company's corporate governance function shall at least include the following:

- (I) to develop and review the Company's policies and practices on corporate governance and make recommendations to the board of directors;
- (II) to review and monitor the training and continuous professional development of directors and senior management of the Company;

- (III) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (IV) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and
- (V) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

- Article 14 The Company's external auditors and the Audit Committee must hold at least two meetings each year without the attendance of any executive directors (except those invited by the Audit Committee). The secretary of the Company's board of directors may attend the meeting.
- Article 15 The internal audit department of the Company must report to the Audit Committee. Various audit reports and the plan and situation of rectification of audit issues submitted to the management by the internal audit department shall be submitted to the Audit Committee at the same time.
- Article 16 When the Company intends to appoint or replace an external auditor, the Audit Committee must formulate deliberation opinions and make recommendations to the board of directors before the board of directors consider relevant proposals.
- Article 17 The Audit Committee shall be accountable to the board of directors. The Audit Committee shall submit its proposals to the board of directors for consideration and decision. The Audit Committee shall cooperate with the audit activities of the Supervisory Committee.
- Article 18 The Audit Committee is authorized by the board of directors to inspect all accounts, books and records of the Company, and has the right to request the management team of the Company to provide information on any matter related to the financial condition of the Company, its subsidiaries or affiliates as necessary to perform its duties. The Audit Committee must be provided with sufficient resources to discharge its responsibilities.
- Article 19 The Chairperson or (in his or her absence) another member of the Audit Committee (who must be an independent non-executive director) must attend the Company's annual general meeting and respond to the shareholders' questions regarding the activities of the Audit Committee and their responsibilities.

Chapter 4 Decision-making Process

Article 20 The audit department is responsible for making the preliminary preparations and providing the Audit Committee with the relevant written information for it to make decisions:

- (I) relevant financial reports of the Company;
- (II) work reports of internal and external auditors;
- (III) external audit contracts and the relevant working reports;
- (IV) public disclosure of information made by the Company;
- (V) audit reports regarding major connected transactions of the Company;
- (VI) other relevant matters.

Article 21 The reports submitted by the audit department shall be discussed in the meetings of the Audit Committee, and its relevant written resolution shall be submitted to the board of directors for consideration:

- (I) work appraisal on external auditor, and the appointment and replacement of external auditor;
- (II) reports on whether the internal audit system of the Company has been effectively implemented and whether the financial reports of the Company are true in all aspects;
- (III) reports on whether information such as financial reports disclosed publicly by the Company are objective and true, and whether the major connected transactions of the Company are in compliance with the requirements of the relevant laws and regulations;
- (IV) work appraisal of the internal financial department and audit department, including its responsible person, of the Company;
- (V) other relevant matters.

Chapter 5 Rules of Procedures

- Article 22 The meetings of the Audit Committee shall include regular meetings and interim meetings. Regular meetings shall be convened at least twice a year and once every six months. Interim meetings shall be convened when proposed by two or more members of the Audit Committee or when considered necessary by the Chairperson. All members must be notified three days in advance of the meeting. The meeting shall be chaired by the Chairperson of the committee. Where the Chairperson is unable to attend the meeting, he/she may delegate another member (independent non-executive director) to preside over the meeting. Upon approval by all members, the said notice period can be waived. Notwithstanding the notice period, the attendance of the members of the Audit Committee at the meeting would be deemed as waiver by such members of the notice period required. The external auditor of the Company can call for a meeting if necessary.
- Article 23 The meetings of the Audit Committee shall not be held unless two-thirds of members are present. Each member shall have one vote and the resolutions of the meeting must be passed by the affirmative vote of a majority of the members. If abstention from voting leads to failure to form an effective review opinion of the Audit Committee, the proposal shall be submitted directly to the board of directors for consideration.
- Article 24 Meeting can be attended in person or via telephone or video conferencing. Members can attend the meeting via telephone or any similar communication device (all persons attending such meetings should be able to hear each other via such communication device). If voting takes place in the meeting, resolutions of the Audit Committee shall be passed by the majority of its members.
- Article 25 Resolutions passed and signed in writing by all members of the Audit Committee shall be effective as if it has been passed at a meeting of the Audit Committee duly convened.
- Article 26 Any member of the Audit Committee who has an interest in the matter discussed at the meeting should avoid the meeting. Members of the Audit Committee shall attend the meeting in person and express explicit opinions on matters under consideration. When a member is unable to attend the meeting in person, he/she may submit a power of attorney signed by the member and appoint other members to attend and express their views of his/her behalf. The scope and duration of the appointment shall be specified in the power of attorney. A member cannot accept the appointment of more than one member at a time. If a member who is also an independent non-executive director fails to attend the meeting in person, he/she shall appoint another independent non-executive director to attend on his/her behalf.

- Article 27 The Audit Committee may invite external auditor representatives, supervisors, internal audit personnel, financial personnel and legal consultants of the Company to attend its meeting and to provide necessary information. However, only members of the Audit Committee are entitled to vote in the meetings of the Audit Committee.
- Article 28 The Audit Committee may, if necessary, engage an intermediary to provide professional opinion for its decision-making at the expense of the Company.
- Article 29 The convening procedure and voting method of the Audit Committee and the resolutions passed at such meetings shall comply with the requirements of the relevant laws, regulations, the Hong Kong Listing Rules, the Articles of Association and these terms of reference.
- Article 30 The Audit Committee shall keep minutes of the meetings. Members and other persons present at the meetings shall sign on the minutes which shall be kept by the secretary to the board of directors of the Company or the secretary to the Audit Committee for inspection by the directors. Draft and final versions of the minutes should be sent to all members of the Audit Committee for their comment (in case of draft versions) and records (in case of final versions) within a reasonable time after the meeting.
- Article 31 Resolutions passed by and voting result of the meeting of, the Audit Committee shall be reported in writing to the board of directors of the Company.
- Article 32 Members present at the meeting are subject to the obligation of confidentiality on all matters at the meetings and shall not disclose any of the relevant information without authorization.

Chapter 6 Supplementary Provisions

- Article 33 After consideration and approval by the board of directors, these terms of reference shall come into effective and be implemented upon the initial public offering of the H shares of the Company and from the date of its listing on The Stock Exchange of Hong Kong Limited.
- Article 34 If the relevant provisions of these terms of reference contravene with the national laws, regulations, rules, the Hong Kong Listing Rules, other securities regulatory requirements of the places where the shares of the Company are listed or the Articles of Association as enacted in the future, such relevant national laws, regulations, rules, the Hong Kong Listing Rules, other securities regulatory requirements of the places where the shares of the Company are listed and the Articles of Association shall prevail.