



## **ELL Environmental Holdings Limited**

**強泰環保控股有限公司 \***

*(the “Company”)*

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

**(Stock Code: 1395)**

### **TERMS OF REFERENCE OF AUDIT COMMITTEE**

*(Amended and adopted by the Company with effect from 1 January 2016*

*pursuant to the Board resolution passed on 11 December 2015)*

#### **DEFINITIONS**

1. For the purposes of these terms of reference (the “**Terms**”):

**Audit Committee** (or the **Committee**) means the audit committee established by the resolution of the Board in accordance with clause 2 of these Terms.

**Board** means the board of directors of the Company.

**Chairman** means the chairman of the Audit Committee.

**Chief Financial Officer** means the senior officer of the Company responsible for financial management as appointed by the Board from time to time.

**Company Secretary** means the company secretary of the Company.

**Directors** means the directors of the Company.

**Group** means the Company and its subsidiaries and associated companies at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries and associated companies, the present subsidiaries and associated companies of the Company or the businesses operated by its present subsidiaries and associated companies or (as the case may be) its predecessor.

**Listing Rules** mean the Rules Governing the Listing of securities on The Stock Exchange of Hong Kong Limited (as amended from time to time).

*\* For identification purpose only*

**Senior Management** means the chairman, vice chairman, president, vice president, chief executive, chief financial officer, chief operations officer, chief information officer, general counsel, company secretary and any other officers of the Company appointed by the Board from time to time; any other officers of the Company whose remuneration package is, or is proposed to be, more favourable than that of any officer appointed by the Board; and any other employees of the Company as may be determined by the Company's remuneration committee.

**Shareholders** means the shareholders of the Company.

**Stock Exchange** means The Stock Exchange of Hong Kong Limited.

## **CONSTITUTION**

2. The Audit Committee was established by resolutions of the Board on 5 September 2014.

## **MEMBERSHIP**

3. The members of the Audit Committee shall be appointed by the Board from amongst the non-executive Directors and shall consist of not less than three members, a majority of whom should be independent non-executive Directors who shall meet and maintain the independence requirements set out in the Listing Rules, and at least one of whom should be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. The quorum of a Committee meeting shall be any two members of the Committee one of whom must be independent non-executive Director.
4. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one year 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 the later.
5. The Chairman shall be an independent non-executive Director and shall be appointed by the Board.

## **ATTENDANCE AT MEETINGS**

6. The Chief Financial Officer, the head of internal audit of the Company and a representative of the external auditors shall normally attend meetings. However, at least once a year the Audit Committee shall meet with the external and internal auditors without the executive Directors present.

## **FREQUENCY AND PROCEDURE OF MEETINGS**

7. Unless otherwise stated herein, the meetings are governed by the provisions contained in the Company's articles of association for regulating the meeting and proceedings of Directors.
8. Meetings shall be held not less than twice a year. The Chairman shall convene a meeting upon request by any member of the Audit Committee. The external auditors may request a meeting if they consider that one is necessary.
9. The Company Secretary (or representative appointed by the Company Secretary) shall be the secretary of the Audit Committee.
10. An agenda and accompanying board papers should be sent in full to all Directors in a timely manner and at least 3 days before the intended date of a meeting of the Audit Committee (or other agreed period).
11. The Senior Management has an obligation to supply the Board and the Committee with adequate information, in a timely manner, to enable them to make informed decisions. The information supplied must be complete and reliable. Where any Director requires more information than is volunteered by the Senior Management, he should make further enquiries where necessary. The Board and individual Directors should have separate and independent access to the Senior Management.

## **ANNUAL GENERAL MEETING**

12. The Chairman shall attend the Company's annual general meeting and be prepared to respond to any Shareholders' question on the Audit Committee's activities.
13. If the Chairman is unable to attend an annual general meeting of the Company, he shall arrange for another member of the Committee, or failing this, his duly appointed delegate, to attend in his place. Such person shall be prepared to respond to any shareholder questions on the Committee's activities.

## **AUTHORITY**

14. The Audit Committee is authorised by the Board to investigate any activity within these Terms. 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 Audit Committee.
15. The Audit Committee is authorised by the Board to obtain outside independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. The Audit Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any external auditors who advises the Audit Committee.
16. The Audit Committee shall be provided with sufficient resources to perform its duties.
17. The Audit Committee shall report to the Board any suspected frauds and irregularities, failure of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

## **DUTIES**

18. The duties of the Audit Committee shall include:

### **Relationship with the Company's auditors**

- (a) 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 to consider any questions of resignation or dismissal of that auditor;
- (b) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (c) developing and implementing policy on the engagement of an external auditor to supply non-audit services and report the same to the Board, and identifying and making recommendations on any matters in respect of which it considers that action or improvement is needed. 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 knowing all relevant information would reasonably conclude as part of the audit firm nationally or internationally;

- (d) discussing with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and ensure proper co-ordination where more than one audit firm is involved;
- (e) discussing problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss (in the absence of Senior Management where necessary);

### **Review of financial information of the Company**

- (f) monitoring the integrity of the Company's financial statements, 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 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 Listing Rules and other legal requirements in relation to financial reporting
- (g) With regard to (f) above:—
  - (i) liaising with the Board and the Senior Management;
  - (ii) meeting at least twice a year with the Company's auditors; and
  - (iii) considering any significant or unusual items that are, or may need to be, reflected in such financial statements, reports and accounts and giving 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 system, risk management and internal control systems**

- (h) reviewing the Company's financial controls, risk management and internal control systems;
- (i) discussing the risk management and internal control systems with the Senior Management to ensure that the Senior Management has performed its duties in establishing and maintaining effective systems, including matters on adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (j) considering major investigations findings on risk management and internal control matters as delegated by the Board or on its own initiative and Senior Management's response to those findings;
- (k) where an internal audit function exists, ensuring co-ordination between the internal and external auditors, ensuring the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- (l) reviewing the Group's financial and accounting policies and practices;
- (m) reviewing the external auditor's management letter, any material queries raised by such auditor to Senior Management about accounting records, financial accounts or systems of control and Senior Management's response;
- (n) ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) reporting to the Board on the matters set out in these Terms;
- (p) reviewing 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 action;
- (q) acting as the key representative body for overseeing the Company's relations with the external auditor;

- (r) establishing a whistle-blowing policy and system for employees of the Company and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company;
- (s) developing and reviewing the Company's policies and practices on corporate governance and make recommendations to the Board;
- (t) reviewing and monitoring the training and continuous professional development of Directors and Senior Management;
- (u) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (v) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors;
- (w) reviewing the Company's compliance with the Corporate Governance Code contained in Appendix 14 of the Listing Rules and the disclosure in the Corporate Governance Report in the Company's annual report;
- (x) reviewing on-going connected transactions of the Company and ensure compliance with terms of approval by shareholders of the Company;
- (y) reviewing the findings of internal investigations and senior management's responses in relation to any suspected fraud or irregularities or failures of internal controls or infringement of laws, rules and regulations; and
- (z) considering any other topics, as determined by the Board.

#### **FAILURE TO REACH AN AGREEMENT REGARDING EXTERNAL AUDITORS**

19. Where the Board has taken a different view from the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors, the Audit Committee shall submit a statement to the Company explaining its recommendation, which statement will be disclosed by the Company in the Corporate Governance Report in the Company's annual report in accordance with Appendix 14 of the Listing Rules.

## **REPORTING PROCEDURES**

20. Full minutes of the Audit Committee's meetings should be properly kept by a duly appointed secretary of the meeting (who should normally be the Company Secretary or a representative appointed by the Company Secretary). The minutes shall be available for inspection at any reasonable time on reasonable notice by any Director.
21. Minutes of meetings of the Audit Committee should record in sufficient detail the matters considered by the Audit Committee and decisions reached, including any concerns raised by the Directors, members of the Audit Committee or dissenting views expressed. Draft and final versions of minutes of such meetings should be sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after such meetings.
22. Without prejudice to the generality of the duties of the Audit Committee set out herein, the Audit Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless there are legal or regulatory restrictions on it to do so.

## **PROVISION OF TERMS**

23. The Audit Committee should provide these Terms upon request and upload it to the Stock Exchange's website and the Company's website to explain the duties of the Audit Committee and the authority the Board granted to it.