

**BEIJING SINOHYTEC CO., LTD.  
TERMS OF REFERENCE OF  
THE AUDIT COMMITTEE UNDER  
THE BOARD OF DIRECTORS**

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## CHAPTER 1 GENERAL PROVISIONS

**Article 1** In order to strengthen effective supervision over the management of the board of directors of the Beijing SinoHytec Co., Ltd. (the “**Company**”) and to further improve the Company’s corporate governance structure, these terms of reference are formulated in accordance with the Company Law of the People’s Republic of China, the Code of Corporate Governance for Listed Companies, the Guideline No. 1 for the Application of Self-regulatory Rules for Companies Listed on the STAR Market of the Shanghai Stock Exchange – Standardized Operation, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”), the Articles of Association of Beijing SinoHytec Co., Ltd. (the “**Articles**”) and other relevant regulations.

**Article 2** The audit committee under the board of directors (the “**Audit Committee**”) is a specific working body set up by the board of directors in accordance with the resolutions at the general meeting. Its main responsibilities are to coordinate, supervise and review the internal and external auditing of the Company.

## CHAPTER 2 COMPOSITION

**Article 3** The Audit Committee comprises three directors, and all of them shall be non-executive directors, with a majority of them being independent non-executive directors. At least one of the independent non-executive directors shall have appropriate professional qualifications or accounting or related financial management expertise under the Hong Kong Listing Rules. Members of the Audit Committee shall in principle be independent from the daily operation and management of the Company, and shall have the professional knowledge and business experience capable of performing the duties of the Audit Committee.

**Article 4** Members of the Audit Committee shall be nominated by the chairman of the board of directors, more than half of the independent non-executive directors or more than one third of all the directors and shall be elected by the board of directors.

**Article 5** The Audit Committee shall have one chairman (convener) who shall be an independent non-executive director specializing in accounting affairs, responsible for presiding over the work of the Audit Committee.

**Article 6** The term of office of Audit Committee is consistent with that of the board of directors. After expiration of such term, a committee member may serve for another term upon re-election. If a committee member ceases to be a director of the Company or otherwise is unable to fulfill his/her duty as a director before the expiry of his/her term of office, or if any member who shall be an independent non-executive director no longer possesses such independence as required by relevant laws and regulations, the Hong Kong Listing Rules or the Articles, such member shall be disqualified as a member automatically and the board of directors shall appoint a new member to fill the vacancy pursuant to the aforesaid provisions of these terms of reference.

Adjustments may be made to the members of the Audit Committee during their terms of office upon being proposed by the chairman of the board of directors and approved by the board of directors upon discussion.

**Article 7** The internal audit department under the Audit Committee as the routine executive organ shall be responsible for daily liaison and meeting arrangements.

### **CHAPTER 3 DUTIES AND AUTHORITIES**

**Article 8** The primary duties and authorities of the Audit Committee include:

- (I) advising the board of directors on the appointment, renewal, replacement or dismissal of the external audit agency; approving and reviewing audit fees and appointment terms of the external audit agency; dealing with any issues related to resignation or dismissal of the external audit agency, supervising the work of the external audit agency and reviewing reports of the external audit agency. When the Company engages or replaces its external audit agency, the Audit Committee shall form an opinion on relevant matters and propose a resolution to the board of directors for further consideration;
- (II) reviewing and monitoring the external auditor agency'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;
- (III) supervising the financial control and internal audit system of the Company and its implementation;
- (IV) being responsible for the communication between internal audit and external audit, and to monitor the relationship between the Company and external audit;

(V) reviewing the integrity of the Company's financial statements and annual report and accounts, semi-annual report and, if prepared for publication, quarterly reports, and to review significant financial reporting opinions contained in them. In reviewing these reports before submission to the board of directors, the Audit Committee shall focus particularly on:

1. any changes in accounting policies and practices;
2. major judgmental matters;
3. significant adjustments resulting from the audit;
4. the going concern assumptions and any qualifications;
5. compliance with accounting standards;
6. compliance with laws and requirements in relation to financial reporting in the Hong Kong Listing Rules.

(VI) to perform the duties under paragraph (V) of this Article:

1. members of the Audit Committee shall liaise with the board of directors, senior management officers and the appointed audit agency; the Audit Committee shall convene meetings with the external audit agency at least twice a year;
2. the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in the financial reports and accounts, and shall give due consideration to any matters that have been raised by the Company's financial officers, internal auditors or supervisors, or the external auditor's agency engaged by the Company;

(VII) reviewing the Company's risk management and internal control systems;

(VIII) discussing 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 programs and budget of the Company's accounting and financial reporting function;

(IX) considering major investigation findings on risk management and internal control matters as delegated by the board of directors or on its own initiative and management's response to those findings;

- (X) ensuring 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;
- (XI) reviewing the Company's financial and accounting policies and practices;
- (XII) reviewing the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of internal control and management's response;
- (XIII) ensuring that the board of directors will provide a timely response to the issues raised in the external auditor's management letter;
- (XIV) ensuring that the Company has established appropriate channels for employees to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters, and to review such arrangements from time to time so that the Company can conduct a fair and independent investigation of these matters and take appropriate actions;
- (XV) acting as the key representative body between the Company and the external auditor agency for overseeing their relations;
- (XVI) reviewing all external guarantees of the Company and submitting the discussion results to the board of directors for consideration;
- (XVII) formulating and implementing policies of non-audit services provided by the external audit agency (if any). For the purpose of this article, the external audit agency includes any entity under the common control, ownership or management with such audit firm, or a third party who has a reasonable knowledge of all relevant information, which would, therefore, be reasonably concluded to be any entity responsible for part of such audit firm's domestic or international business. The Audit Committee shall report to the board of directors and make recommendations on any action or improvement it deems necessary;
- (XVIII) reviewing the Company's compliance with the Corporate Governance Code under the Hong Kong Listing Rules and the disclosures in the Corporate Governance Report;
- (XIX) other authorities of the Audit Committee under the Hong Kong Listing Rules;
- (XX) reporting to the board of directors on the matters set out in the Corporate Governance Code in Appendix C1 to the Hong Kong Listing Rules;

- (XXI) reviewing and monitoring the Company's policies and practices in relation to the compliance with laws and regulatory requirements;
- (XXII) reviewing the necessity, feasibility and risk control of trading in futures and derivatives;
- (XXIII) other duties as authorized by the board of directors.

**Article 9** The following matters shall be submitted to the board of directors for consideration after approval by a majority of all members of the Audit Committee:

- (I) disclosure of financial information in financial and accounting reports and periodic reports, and evaluation reports on internal control;
- (II) appointment or dismissal of accounting firms engaged in audit business for listed companies;
- (III) appointment or dismissal of the financial controller of a listed company;
- (IV) changes in accounting policies and accounting estimates made for reasons other than changes in accounting standards, or corrections of material accounting errors;
- (V) other matters as stipulated in laws, administrative regulations, rules of the CSRC and the Articles.

The Audit Committee meets at least once a quarter, and may convene an extraordinary meeting upon the proposal of two or more members, or when the convener deems necessary. Meetings of the Audit Committee may only be held with the attendance of at least two-thirds of the members.

**Article 10** The Audit Committee of the board of directors shall review the financial and accounting reports of the Company and advise as to the truthfulness, completeness and accuracy of such reports, focusing on material accounting and auditing issues contained in the financial and accounting reports of the Company, specifically on the possibility of fraud, corruption and material misstatement in relation to the financial and accounting reports, and supervise the rectification of the issues in financial and accounting reports.

The Audit Committee shall make recommendations to the board of directors on the appointment and replacement of the external auditor and review the auditing fees and engagement terms of the external auditor, and shall not be improperly influenced by the substantial shareholders, de facto controller or directors, supervisors and senior management of the Company.

The Audit Committee shall procure the external auditor to be honest, trustworthy, diligent and responsible, strictly abide by business rules and industry self-discipline norms, strictly implement the internal control system, check and verify the financial and accounting reports of the Company, perform the special care obligations, and prudently give professional opinions.

**Article 11** The Audit Committee's responsibility and duties to monitor and assess the internal audit shall include the followings:

- (I) guiding and supervising the establishment and implementation of the internal audit system;
- (II) reviewing the annual internal audit work plan of the Company;
- (III) supervising the implementation of internal audit plans of the Company;
- (IV) guiding the effective operation of the internal audit department. The internal audit department of the Company shall report to the Audit Committee, and any audit reports, rectification plans and rectification progress related to the audit findings submitted to the management by the internal audit department shall be forwarded to the Audit Committee as well;
- (V) reporting to the board of directors on the progress and quality of internal audit and major problems identified;
- (VI) coordinating the relationship between the internal audit department and the external audit units including accounting firms and national audit institutions.

The internal audit department of the Company shall be accountable and report to the Audit Committee under the board of directors. Any audit reports, rectification plans and rectification progress related to the audit findings submitted to the management by the internal audit department shall be forwarded to the Audit Committee as well.

**Article 12** Unless otherwise provided by laws and regulations, the Audit Committee shall procure the internal audit department to review the following matters at least once every half year, issue review reports and submit such reports to the Audit Committee. Any violation of laws and regulations or operating irregularities of the listed company identified during the review shall be promptly reported to the stock exchanges on which the shares of the Company are listed:

- (I) the implementation of significant events such as the Company's use of proceeds raised, provision of guarantees, connected transactions, securities investment and derivatives transactions, provision of financial assistance, purchase or sale of assets, and outward investments;

- (II) the Company's substantial capital transactions and the capital transactions with directors, supervisors, senior management, controlling shareholders, de facto controllers and their connected persons.

**Article 13** The Audit Committee shall give its evaluation advice in writing in respect of the effectiveness of the Company's internal control based on the internal audit report and relevant information submitted by the internal audit department, and report such matters to the board of directors. If the Audit Committee considers that there are material deficiencies or significant risks in the Company's internal control, the board of directors shall promptly report to the stock exchange where the Company's shares are listed and disclose such deficiencies or risks. The Company shall disclose in the announcement the material deficiencies or significant risks in its internal control, the consequences that have been or may be caused, and the measures that have been or are proposed to be taken.

**Article 14** The Audit Committee shall be accountable to the board of directors, and shall submit its proposals to the board of directors for consideration and approval.

**Article 15** The authorities of the Audit Committee shall be disclosed on the websites of The Stock Exchange of Hong Kong Limited and of the Company for interpretation of its role as well as powers delegated to it by the board of directors.

**Article 16** The Audit Committee shall be provided with sufficient resources to perform its duty, and the senior management of the Company shall support the work of the Audit Committee. The Audit Committee may, if necessary, engage an intermediary to provide independent professional advice for its decision-making, and the reasonable expenses incurred shall be at cost of the Company.

#### **CHAPTER 4 PROCEDURES OF MEETINGS**

**Article 17** The meetings of the Audit Committee fall into two categories: regular meetings and extraordinary meetings.

**Article 18** The meetings of the Audit Committee shall be convened at least once in a quarter to review the work plans and reports submitted by the internal audit department. The Audit Committee shall report to the board of directors at least once in a quarter regarding the progress and quality of the internal audit work and material issues identified. An extraordinary meeting shall be convened by the Audit Committee when needed. When two or more of the Audit Committee members propose or the convener of the Audit Committee considers necessary, an extraordinary meeting shall be convened.

**Article 19** When convening the fixed meetings of the Audit Committee, a meeting notice shall be delivered to all of the members of the Audit Committee by hand, prepaid post, fax or mail three days prior to the date of the meeting. If service is made indirectly, confirmation shall additionally be made by telephone and the appropriate record thereof shall be made.

If the extraordinary meetings are convened by the chairman of the committee from time to time, the meeting notice may be given by telephone or by other verbal means at any time, but the convener shall provide an explanation at the meeting.

**Article 20** The meetings of the Audit Committee shall be convened and presided over by the convener of the Audit Committee. When the convener of the Audit Committee is unable or refuse to perform the duties, an independent non-executive director shall be appointed to perform the duties on his/her behalf.

**Article 21** Members of the Audit Committee shall attend meetings in person and deliver explicit opinions on matters deliberated. In the event that a member is unable to attend a meeting in person for any reason, the member may submit a power of attorney signed by him or her and authorize another member to attend the meeting and express opinions on his or her behalf. The power of attorney shall specify the scope and duration of authorization. Every member may accept authorization from only one member. A member who is an independent non-executive director cannot attend a meeting in person for any reason, the member shall authorize another independent non-executive director to attend the meeting on his or her behalf.

**Article 22** A meeting of the Audit Committee can be held only when more than two-thirds of the members are present. Each member shall have the voting right of one vote. The meeting resolutions shall be passed by more than half of all the members. Any member of the Audit Committee who has interests in the matters deliberated in the meeting shall abstain from voting. Where the Audit Committee is unable to form an effective conclusion due to the abstention of such member, such matters shall be directly submitted to the board of directors for consideration.

**Article 23** When voting at the meeting of the Audit Committee, the voting is taken by raising hands or written vote, which is determined by the chairman as needed. Extraordinary meeting may be convened by way of voting by correspondence.

**Article 24** The Audit Committee may invite representatives of external auditors, supervisors of the Company, internal audit personnel, financial personnel, legal advisers as well as other relevant persons to be present at its meeting and provide necessary information as it deems necessary.

**Article 25** The Audit Committee may request the Company to explain relevant matters and to provide relevant information.

**Article 26** The procedures for convening a meeting of the Audit Committee, the voting method and the relevant plans and resolutions passed at such meeting shall be in compliance with the provisions of relevant laws, regulations, the Articles and these terms of reference.

**Article 27** The relevant documents, plans, proposals, resolutions and minutes (records) of the Audit Committee shall be kept by the executing agency of the board of directors for a period of ten years. The resolutions and minutes (records) shall be signed by members attending the meetings.

**Article 28** Resolutions passed at the meeting of the Audit Committee and any voting results shall be reported to the board of directors of the Company in writing and relevant persons shall not disclose any relevant information without permission.

**Article 29** Members and persons attending the meeting shall undertake confidentiality obligations for all items discussed at the meeting and shall not disclose any relevant information without permission.

**Article 30** When disclosing the annual report, the Company shall also disclose the annual performance of the Audit Committee on the website of the Stock Exchange, mainly including the performance of its duties and the convening of the meetings of the Audit Committee.

In case a major issue discovered by the Audit Committee in the course of performing its duties falls within the criteria information disclosure stipulated in the Rules Governing the Listing of Stock on the Science and Technology Innovation Board of Shanghai Stock Exchange, the Company shall disclose such matters and their rectification in a timely manner.

If the board of directors fails to adopt the review opinions from the Audit Committee within its scope of responsibility, the Company shall disclose the matter and fully explain the reasons.

The Company shall disclose the special opinions issued by the Audit Committee on major events of the Company in accordance with the requirements of relevant laws and regulations.

## **CHAPTER 5 SUPPLEMENTARY PROVISIONS**

**Article 31** These terms of reference shall become effective and enforceable upon consideration and approval by the board of directors. From the effective date of these terms of reference, the existing Terms of Reference of Audit Committee under the Board of Directors of Beijing SinoHytec Co., Ltd. shall lapse automatically.

**Article 32** Any matters not covered by these terms of reference shall be dealt with in accordance with the relevant provisions of the laws, regulations, the Hong Kong Listing Rules and the Articles. In the event that these terms of reference are in contravention with the laws, regulations, the Hong Kong Listing Rules promulgated in the future and the Articles amended by legal procedures, relevant provisions of laws, regulations, the Hong Kong Listing Rules and the Articles shall prevail, and these terms of reference shall be amended forthwith and submitted to the board of directors of the Company for consideration and approval.

**Article 33** The interpretation of these terms of reference shall be vested in the board of directors of the Company.

*NOTE:* If there is any discrepancy between the English version and the Chinese version, the Chinese version shall prevail.