SANY HEAVY INDUSTRY CO., LTD.
TERMS OF REFERENCE OF
THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CHAPTER 1 GENERAL PROVISIONS

Article 1 To enhance the decision-making function of the Board of Directors, perform pre-audit and professional audit, ensure effective supervision over the senior management by the Board of Directors, the Company hereby establishes the Audit Committee of the Board of Directors and formulates these terms of reference (hereinafter the "Terms of Reference"), in accordance with the Company Law of the People's Republic of China (hereinafter the "Company Law"), the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter the "Hong Kong Listing Rules"), the Articles of Association of SANY Heavy Industry Co., Ltd. (hereinafter the "Articles of Association"), and other relevant laws and regulation, and normative documents.

Article 2 The Audit Committee of the Board of Directors is a specialized working committee established by the Board of Directors in accordance with the resolutions of the Board of Directors, shall be accountable to and report to the Board of Directors.

CHAPTER 2 COMPOSITION

Article 3 The Audit Committee shall consist of no fewer than three director members, all of whom are non-executive directors not serving as senior management members of the Company, with independent non-executive directors forming the majority. More than half of the Audit Committee members shall not hold any positions in the Company other than director and shall have no relationships with the Company that could affect their independent and objective judgment. At least one independent non-executive director shall be an accounting professional and meet the requirements under the Hong Kong Listing Rules for an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The convener of the Audit Committee shall be an accounting professional from among the independent non-executive directors.

Employee representatives among the members of the Board of Directors may also serve as members of the Audit Committee.

Article 4 Members of the Audit Committee shall be nominated by the chairperson of the Board of Directors, more than half of the independent non-executive directors or more than one-third of all directors and elected by the Board of Directors. The term of office of the members of the Audit Committee shall be subject to the securities regulatory rules of the place where the shares of the Company are listed. The former partner of an external audit firm(s) currently responsible for auditing the accounts of the Company shall not be a member of the Audit Committee of the Company within two years from the following dates (whichever is later): (i) the date on which he/she ceased to be a partner of the external audit firm; or (ii) the date on which he/she ceased to enjoy the financial benefits of the external audit firm.

Article 5 The Audit Committee shall have one chairperson, who shall be an accounting professional among the independent non-executive directors and shall be responsible for presiding over the work of the Committee. The chairperson shall be elected among the members and reported to the Board of Directors for approval.

Article 6 The term of office of the Audit Committee shall be identical to that of the Board of Directors. A member may be re-elected upon the expiration of his/her term of office. If a member ceases to be a director of the Company during the term of office, his/her qualification as a Committee member will be revoked automatically and the position so vacated shall be filled by the Committee according to the provisions of Article 3 to 5 above.

CHAPTER 3 DUTIES AND AUTHORITIES

Article 7 The Audit Committee shall be responsible for reviewing the Company's financial information and its disclosure, supervising and evaluating internal and external audits, and internal controls. The duties and authorities of the Audit Committee include:

(1) review financial accounting reports and financial information in periodic reports, as well as internal control evaluation reports, including monitoring the completeness of the Company's financial statements, annual reports and accounts, half-year reports and quarterly reports, and reviewing significant opinions contained therein in respect of relevant financial reporting. The Committee shall focus on the following matters before submitting such statements and reports to the Board of Directors:

i any changes in accounting policies and practices;

ii major judgmental areas;

iii major adjustments arising from audits;

iv the going concern assumptions and any qualifications;

v compliance with accounting standards;

vi compliance with other securities regulatory rules of the place where the shares of the Company are listed and legal requirements in relation to financial reporting;

Regarding the above, members of the Committee shall liaise with the Board of Directors and senior management of the Company. The Committee shall at least convene meetings with external auditors of the Company at least twice a year. The Committee shall consider any significant or extraordinary items that are, or shall be, reflected in such reports and accounts, and shall give due consideration to any matters raised by the staff responsible for accounting and financial reporting, compliance department or external auditors of the Company.

(2) supervise and evaluate the external audit work, propose to the Board of Directors the Company's engagement and dismissal of the accounting firms engaged in the audit work of the Company, provide recommendations to the Board of Directors on the remuneration and terms of engagement of the external auditors, to handle any issues relating to the resignation or removal of the external auditors; review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; the Committee shall discuss with the external auditors on the nature and scope of the audit and related reporting obligations before the audit commences; develop and implement policies on the provision of non-audit services by the external auditors. Regarding the article, the "external auditors" shall include any entity under common control, ownership or management with the auditors and any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the auditor nationally or internationally. The Committee shall report to the Board of Directors and make recommendations on any matters where action or improvement is needed, perform the role as a major representative of the Company to liaise with external auditors and supervise their relationship;

(3) make recommendations to the Board of Directors on the appointment or dismissal of financial officer of the Company;

(4) make recommendations to the Board of Directors on changes in accounting policies or accounting estimates or correction of material accounting error for a reason other than change in accounting standards;

(5) inspect the effectiveness of the financial internal control system and risk management system of the Company;

1. to review the financial control, internal control and risk management system of the Company;

2. to discuss with the management on risk management and internal control system to ensure that the management has performed its duty to establish an effective system. The discussion should be given to, among others, the adequacy of resources, qualifications, experience and training of staff and budgets pertaining to the accounting and financial reporting functions;

3. to research on the major investigation findings on risk management and internal control matters and the management's response to the investigation findings on its own initiative or under the commission of the Board of Directors;

4. to ensure the coordination between internal and external auditors, and ensure that the internal audit function is provided with adequate resources for its operation within the Company and has appropriate standing; and review and monitor its effectiveness;

5. to review the financial and accounting policies and practices of the Company;

6. to review the external audit firm's Audit Letter to the management, any material queries raised by the external auditors to the management about accounting records, financial accounts, risk management or monitor systems and the management's responses;

7. to ensure the Board of Directors will provide a timely response to matters raised in the external audit firm's Audit Letter to the management;

8. to report to the Board of Directors on the above matters and other matters as set out in Code Provision D.3.3 of Appendix C1 to the Hong Kong Listing Rules (and such provision as amended from time to time);

(6) to conduct investigations whenever unusual conditions in the operation of the Company arise and, if necessary, to engage professional institutions such as accounting firms and law firms to assist in their work with expenses to be borne by the Company;

(7) other matters prescribed by laws and regulations, regulatory rules in the places where the shares of the Company are listed, the Articles of Association, and other matters as authorized by the Board of Directors.

Article 8 The following matters shall be tabled at the Board of Directors for review and consideration after obtaining the consent of more than half of the members of the Audit Committee:

(1) disclosure of the financial information in financial and accounting reports and regular reports, and the evaluation reports on internal control;

(2) appointment or dismissal of an accounting firm which undertakes audit work of the Company;

(3) appointment or dismissal of the financial officer of the Company;

(4) change in accounting policy or accounting estimate or correction of significant accounting error for reasons other than a change in accounting standards;

(5) other matters prescribed by laws, administrative regulations, regulatory rules and provisions in the places where the shares of the Company are listed and the Articles of Association.

Article 9 The Audit Committee is accountable to the Board of Directors. After the Audit Committee reviewed the matters stipulated in the aforementioned Article 7 and 8 of the Terms of Reference, a resolution of the Audit Committee meeting shall be formulated, and submitted to the Board of Director of the Company together with relevant proposals for review.

Article 10 The Audit Committee may designate relevant departments and personnel to assist in its work as required.

CHAPTER 4 RULES OF PROCEDURE

Article 11 The Audit Committee shall convene at least one meeting each quarter, and an extraordinary meeting may be convened when proposed by two or more members, or when the convener considers necessary.

A notice shall be given to all members in three days before the meeting is held, except for the interim board meetings held under special or urgent circumstances. The meeting shall be convened and chaired by the chairperson of the Audit Committee. In the event that the chairperson of the Audit Committee fails to attend the meeting, he or she may appoint another committee member (who shall be an independent non-executive director) to preside over the meeting.

Article 12 The meetings of the Audit Committee shall be held only in the presence of more than two-thirds of the members. The resolutions made by the Audit Committee shall be passed by more than half of the members of the Audit Committee.

Voting on the resolutions of Audit Committee shall be one person, one vote.

Article 13 The meetings of the Audit Committee shall be convened by way of physical meetings or through communication tools. Any voting at such meetings should be taken by poll.

Article 14 The Audit Committee, when necessary, may invite other directors and members of senior management of the Company to attend its meetings.

Article 15 The Audit Committee may engage an intermediary agency to provide professional advice on its decisions at the expense of the Company when necessary.

Article 16 The Audit Committee should keep the minutes of the meetings. The minutes of the meetings shall be signed by the members present at the meetings, and shall be kept by the secretary of the Board of Directors of the Company. The draft and final versions of the minutes shall be delivered to all members within a reasonable time after conclusion of such meetings with the draft version to be used for the expression of opinions by the members and the final version to be used as a record. A director of the Company may inspect the meeting minutes at a reasonable time upon giving reasonable notice.

Article 17 The resolutions approved and the voting results reached at the meetings of the Audit Committee shall be reported in written form to the Board of Directors.

Article 18 All members attending the meetings of the Audit Committee are obliged to keep confidential the matters discussed at the meeting and shall not disclose relevant information without authorization.

CHAPTER 5 SUPPLEMENTARY PROVISIONS

Article 19 The formulation and interpretation of the Terms of Reference should be vested in the Board of Directors of the Company.

Article 20 Matters not covered herein shall be subject to relevant laws and regulations and the Articles of Association. If the Terms of Reference conflict with relevant laws and regulations, the listing rules of the stock exchange where the shares of the Company are listed to be promulgated, and the amended Articles of Association according to legal procedure, such laws and regulations, the listing rules of the stock exchange where the shares of the Company are listed, and the provisions of the Articles of Association shall apply.

Article 21 The Terms of Reference, after consideration and approval by the Board of Directors, shall take effect from the date on which H shares issued by the Company are listed on The Stock Exchange of Hong Kong Limited. The original terms of reference of the Audit Committee under the Board of Directors of the Company shall lapse automatically on the date when the Terms of Reference become effective.