

ZOOMLION HEAVY INDUSTRY SCIENCE AND TECHNOLOGY CO., LTD.*

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS TERMS OF REFERENCE

CHAPTER 1 GENERAL

Article 1 Zoomlion Heavy Industry Science and Technology Co., Ltd. (the “Company”) has established the audit committee of the board of directors and formulated these terms of reference in accordance with the Company Law of the People’s Republic of China (the “Company Law”), the Securities Law of the People’s Republic of China, the Articles of Association of the Company (the “Articles of Association”), the Code of Corporate Governance for Listed Companies, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”) and other applicable laws, regulations and regulatory documents to enhance the decision-making function of the board of directors of the Company by conducting preliminary audit and professional audit to ensure effective supervision of senior management by the board of directors and to improve the corporate governance of the Company.

The Company will from time to time amend these terms of reference in accordance with the modifications of the relevant laws, regulations, regulatory documents as well as the Articles of Association. In the event that the provisions of these terms of reference conflict with the relevant laws, regulations, regulatory documents as well as the Articles of Association, the latter shall prevail.

Article 2 The audit committee is a special committee established by the directors of the Company, exercising the functions and powers of the board of supervisors as stipulated in the Company Law. It is responsible for reviewing the Company’s financial information and its disclosure, overseeing and evaluating both internal and external audit work, and conducting internal control.

CHAPTER 2 COMPOSITION

Article 3 The audit committee shall comprise three to five directors. All members shall be appointed by the board of directors from among those directors not holding senior management positions within the Company, and more than half of the members shall be independent non-executive directors. Employee representatives appointed to the board of directors of the Company can become members of the audit committee. At least one of the members of the audit committee shall be an independent non-executive director with accounting expertise as required by the securities regulatory authorities and stock exchanges in places where the Company is listed.

Members of the audit committee shall possess professional expertise, work experience and high standard of professional ethics necessary to competently perform their duties, and shall ensure that they dedicate sufficient time and effort to perform the duties of the committee with diligence and accountability. They shall effectively supervise and evaluate the Company’s internal and external audit work, and assist the Company in establishing effective internal controls and providing financial reports that are true, accurate and complete.

Members of the audit committee shall further their education and training in legal, accounting, and regulatory policies on an ongoing basis, thereby continually enhancing their ability to perform their duties.

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 one-third of all directors, and shall be elected by the board of directors.

Article 5 The audit committee shall have a chairman (convener), who shall be an accounting professional among the independent non-executive directors and shall be in charge of the work of the committee and mainly responsible for monitoring, reviewing and supervising the financial information and reporting processes of the Company and coordinating the internal and external audit work of the Company. The chairman of the audit committee shall be elected from the committee members and reported to the board of directors for approval.

Article 6 The term of office of the audit committee shall be the same as that of the board of directors. A member of the audit committee may serve consecutive terms if re-elected upon the expiration of his term. Except under circumstances as specified in the Company Law, the Articles of Association, the Hong Kong Listing Rules and other applicable laws, regulations and regulatory documents that prevent such member from holding the office, a member of the audit committee shall not be dismissed without reason. If any member resigns from the position of director of the Company during his term of office, he shall ipso facto cease to hold the position of committee member. The vacancy shall be filled by the committee in accordance with Articles 3 to 5 above.

If the resignation of a member of the audit committee causes the number of members to fall below the required quorum or results in the absence of an accounting professional, the incumbent member shall continue to perform his duties until a new member assumes office.

Article 7 The audit department of the Company shall provide information as requested by the audit committee and is responsible for the routine work of the audit committee.

CHAPTER 3 DUTIES AND AUTHORITY

Article 8 The audit committee shall exercise the functions and powers of the board of supervisors as stipulated in the Company Law, including:

- (1) examining the financial affairs of the Company;
- (2) supervising the conduct of directors and senior management in the performance of their duties, and proposing the removal of directors and senior management who have violated laws, administrative regulations, the Articles of Association or the resolutions of the shareholders' meeting;
- (3) requiring directors and senior management to correct their conduct if such conduct damages the interests of the Company;
- (4) proposing to convene extraordinary general meetings, and convening and presiding over the shareholders' meeting when the board of directors fails to perform the duties of convening and presiding over the shareholders' meeting as required under the Company Law;
- (5) presenting proposals to the shareholders' meetings;
- (6) initiating lawsuits against directors and senior management in accordance with the Company Law and the Articles of Association; and

- (7) other functions and powers as stipulated in the Company Law.

Article 9 The audit committee is responsible for reviewing the Company's financial information and its disclosure, supervising and evaluating internal and external audit works and conducting internal control. The major duties of the audit committee are:

- (1) reviewing the audited annual financial reports;
- (2) examining interim financial reports before submission and supervising the preparation of quarterly report of the listed company;
- (3) reviewing other financial reports and reports of the board of directors;
- (4) examining all material accounting policies of the Company and providing report on any material changes and concerns;
- (5) making recommendations to the board of directors on the appointment, reappointment, removal or replacement of external auditor, approving the remuneration and terms of engagement of external auditor, and handling any questions of its resignation or dismissal;
- (6) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and discussing with the external auditor about the nature and scope of audit and the reporting obligations of the auditor before the audit commences;
- (7) developing and implementing policy on engaging an external auditor to supply non-audit services. For the purpose of this duty, "external auditor" includes any entity that is under the 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 audit committee shall report to the board of directors, identifying and making recommendations on any matters where action or improvement is needed;
- (8) monitoring the integrity of the financial statements, annual reports and accounts, half-year report and, if prepared for publication, quarterly reports of the Company and reviewing significant financial reporting judgements contained in these statements and reports prior to their submission to the board of directors. In reviewing these statements and reports, the committee shall focus particularly on:
 - (a) any changes in the accounting policy and practice;
 - (b) major judgemental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with the accounting standards; and
 - (f) compliance with the relevant Hong Kong Listing Rules and legal requirements in relation to financial reporting;

- (9) Regarding sub-paragraph (8) above:
- (a) members of the audit committee shall liaise with the board of directors and senior management of the Company. The audit committee shall meet at least twice a year with the auditing firm of the Company; and
 - (b) the audit committee shall consider any significant and unusual matter that are, or may need to be, reflected in the reports and accounts, and shall give due consideration to any matters that have raised by the staff responsible for accounting and financial reporting function, compliance officer or the audit department of the Company;
- (10) reviewing the financial controls, internal controls and risk management systems of the Company;
- (11) discussing the risk management and internal control system with the management of the Company to ensure that management has performed its duties to have an effective internal control system. This discussion shall include adequacy of human resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function;
- (12) considering 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;
- (13) where an internal audit function exists, ensuring co-ordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has the appropriate standing within the Company, and to review and monitor its effectiveness;
- (14) reviewing the Group's financial and accounting policies and practices;
- (15) reviewing the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (16) ensuring the board of directors will provide a timely response to the issues raised in the external auditor's management letter;
- (17) performing the duties in respect of corporate governance of the Company, including:
- (a) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the board of directors;
 - (b) reviewing and monitoring the training and continuous professional development of directors and senior management;
 - (c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

- (d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors; and
 - (e) reviewing the Company's compliance with, and reporting to the board of directors the matters stipulated in, the Corporate Governance Code set out in Appendix C1 to the Hong Kong Listing Rules (as amended from time to time) and disclosure in the Corporate Governance Report;
- (18) reviewing major connected transactions, supervising the external audit works and implementation of recommendations regarding the internal control, assessing the possibility of misconduct or fraud by senior management and evaluating the Company's compliance with the code of conduct;
- (19) reviewing the 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 shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions;
- (20) acting as the key representative body for overseeing the Company's relations with the external auditor; and
- (21) other matters as authorised or assigned by the board of directors, and other duties as recommended by the Hong Kong Listing Rules or other laws, rules and regulations.

Article 10 The following matters shall be submitted to the board of directors for deliberation upon approval by more than half of all members of the audit committee:

- (1) disclosure of financial information in financial accounting reports and periodic reports, and internal control evaluation reports;
- (2) appointment or dismissal of the accounting firm responsible for conducting audits of the Company;
- (3) appointment or dismissal of the person in charge of finance of the Company;
- (4) changes in accounting policies or accounting estimates, or corrections of significant accounting errors for reasons other than changes in accounting standards;
- (5) other matters stipulated by laws, administrative regulations, regulations of the China Securities Regulatory Commission and the Articles of Association.

Article 11 The Company shall provide the audit committee with necessary working conditions and adequate resources and support, and equip with specialised personnel or organisations to assist with the audit committee's routine work, such as work liaison, meeting organization, material preparation and file management.

When the audit committee performs its duties, the Company's management and relevant departments are required to cooperate. Directors and senior management must truthfully provide relevant information and materials to the audit committee, not obstruct the audit committee in exercising its functions and powers, and ensure that the audit committee can perform its duties without interference.

Any expenses necessary for the audit committee to exercise its functions and powers shall be borne by the Company.

CHAPTER 4 WORKING PROCEDURES

Article 12 The audit department of the Company shall be responsible for handling the initial preparatory works of the audit committee and providing the following information of the Company:

- (1) work reports of operating management and other materials;
 - (2) external audit contracts, work reports of external auditing firms and relevant materials;
 - (3) financial reports of the Company;
 - (4) audit reports on major connected transactions of the Company;
 - (5) other audit reports and relevant information related to the duties of the audit committee.
- The audit department of the Company is responsible for drafting the proposal.

Article 13 The audit committee shall convene meetings to discuss the proposals and relevant information submitted by the members and the audit department of the Company and shall formulate and forward its proposal to the board of directors for consideration if so required according to its work.

CHAPTER 5 RULES OF PROCEEDINGS

Article 14 The audit committee shall meet at least once quarterly. Ad-hoc meetings may be called upon request of two or more members, or when the chairman of the committee deems it necessary.

Chairman of the audit committee is responsible for convening and presiding over meetings of the audit committee. If the chairman of the audit committee is unable or refuses to perform his duties, a member who is an independent non-executive director shall be jointly elected by more than half of the members of the audit committee to chair the relevant meeting.

A notice shall be given by the chairman of the committee to all members five days prior to the meetings.

Article 15 Members of the audit committee shall attend the meetings of the audit committee in person, and express specific opinions on matters under deliberation. If a member is unable to attend the meeting in person for any reason, he shall review the meeting materials in advance, form specific opinion and record such opinion in the power of attorney, and authorise in writing another member to attend such meeting on his behalf.

Each member of the audit committee may accept up to one member's authorisation, and the power of attorney shall specify the scope and duration of such authorisation. If a member who is an independent non-executive director is unable to attend the meeting for any reason, he shall designate another member of the audit committee who is an independent non-executive director to attend such meeting on his behalf.

Article 16 The quorum of the meetings of audit committee shall be more than two thirds of the members. Each member shall be entitled to one vote. A resolution shall be passed by a simple majority of all members. If any member of the audit committee is interested in the matters discussed at the meeting, he shall abstain from voting. If no effective opinions can be formed due to such abstention, the relevant matters shall be referred to the board of directors for deliberation.

Article 17 Meetings of the audit committee shall, in principle, be held physically but may also be held via video, telephone or other means if necessary, provided that all attendees can fully communicate and express their opinions.

Voting at the meetings of the audit committee shall be conducted by a show of hands or by a poll.

Article 18 The head of the audit department may attend the meetings of the audit committee. Directors, supervisors and other senior management of the Company may also be invited to attend the meetings when necessary.

Article 19 If necessary, the audit committee may engage intermediaries to provide professional advice on its decision, and the reasonable costs so incurred shall be borne by the Company.

Article 20 The procedures for convening a meeting, the method of voting and the resolutions passed at the meetings of the audit committee must comply with the provisions of the relevant laws and regulations, the Articles of Association and these terms of reference.

Article 21 The audit committee shall keep minutes of the meetings. The minutes of the audit committee shall be true, accurate and complete, and fully reflect the opinions of the attendees on matters under deliberation. Members present at the meetings shall sign the minutes of the meetings. The initial draft and the final version of the minutes of the meetings shall be sent to all members of the committee within a reasonable time frame after the meetings for their comment and record respectively. The minutes of the meeting and relevant documents shall be given to the filing department of the Company for filing after being reviewed by the secretary to the board of directors. The secretary to the board of directors shall distribute the minutes of meetings of the audit committee to all members of the board of directors. Meeting minutes and resolutions, power of attorney and other relevant meeting materials shall be properly kept by the Company for at least ten years.

Article 22 Members and other personnel present at the meeting shall have obligation to keep all matters discussed in such meeting confidential and shall not disclose the relevant information without authorisation unless otherwise required by the relevant laws and regulations and/or regulatory authorities.

CHAPTER 6 MISCELLANEOUS

Article 23 These terms of reference have been considered and approved at the 4th meeting of the 7th session of the board of directors, and shall be implemented on the date when the relevant resolution is passed by the board of directors.

Article 24 Any matters not covered by these terms of reference shall be implemented in accordance with the provisions of the relevant laws and regulations and the Articles of Association of the Company. If these terms of reference contravene any future laws and regulations or the Articles of Association as amended under legal procedures, then the provisions of the relevant laws and regulations and the Articles of Association shall prevail, and these terms of reference shall be amended immediately and submitted to board of directors for review and approval.

Article 25 The audit committee shall publicly disclose these terms of reference. The rights to amend and interpret these terms of reference shall be vested in the board of directors of the Company.

Note: These Terms of Reference was originally drafted in Chinese and the English translation is for your reference only. In case of any inconsistencies between the Chinese and the English version, the Chinese version shall prevail.

* *For identification purpose only*