

ZHEJIANG SANHUA INTELLIGENT CONTROLS CO., LTD.

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

Chapter I General Provisions

Article 1 To strengthen the decision-making function of the board of directors of Zhejiang Sanhua Intelligent Controls Co., Ltd. (hereinafter referred to as the “Company”), achieve audit in advance and professional audit, ensure effective supervision over the management by the board of directors and improve the corporate governance structure, the Company has established an 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 (hereinafter referred to as the “Company Law”), the Securities Law of the People’s Republic of China, the Code of Governance for Listed Companies, the Administrative Measures for Independent Directors of Listed Companies, the Self-Regulatory Guidelines for Listed Companies on the Shenzhen Stock Exchange No. 1 – Standardized Operation of Listed Companies on the Main Board, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the relevant provisions of Articles of Association of Zhejiang Sanhua Intelligent Controls Co., Ltd. (hereinafter referred to as the “Articles of Association”).

Article 2 The Audit Committee is a special working body established by the board of directors, which is mainly responsible for reviewing the Company’s financial information and its disclosures, overseeing and evaluating both internal and external audit work as well as internal control, and exercising the functions and powers of the board of supervisors as stipulated under the Company Law.

Chapter II Composition of Members

Article 3 The Audit Committee shall be comprised of at least three directors, and its members shall be non-executive directors who do not serve as senior management of the Company, with more than half of which shall be independent non-executive directors. At least one independent non-executive director among the committee members shall have appropriate professional qualifications or accounting or related financial management expertise, in compliance with the qualification requirements for financial professionals of the Audit Committee as required by the securities exchange of the place where the shares of the Company are listed.

Article 4 The members of the Audit Committee shall be nominated by the chairman of the board, 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 independent non-executive director with accounting expertise, who shall be responsible for presiding over the work of the committee. The chairman (convener) shall be elected from among the committee members and shall be submitted to the board of directors for approval.

Article 6 The term of office of the members of the Audit Committee is the same as that of the directors of board of directors, and members may be re-elected upon expiration of their terms of office. If a member ceases to serve as a director of the Company during the term, he/she shall cease to be a committee member automatically, and the vacancy in the committee shall be filled in accordance with the provisions of Articles 3 to 5 above.

Article 7 The Company's audit department shall designate a specific individual responsible for the liaison of routine work and the organization of meetings.

Chapter III Duties and Authority

Article 8 The primary duties and authority of the Audit Committee are as follows:

- (I) to supervise and evaluate external audit work, primarily including:
 - 1. to make recommendations to the board of directors on the appointment, dismissal or replacement of external audit firms, approve the remuneration and terms of appointment of external audit firms, and handle any issues in relation to the resignation or dismissal of the audit firms;
 - 2. to review and monitor the independence and objectivity of the external audit firms, as well as the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the audit firm the nature and scope of the audit, as well as related reporting obligations before the audit commences;
 - 3. to establish and implement policies regarding the provision of non-audit services by the external audit firm. For the purposes of such regulation, external audit firm shall include any entity under the same control, ownership, or management as the firm responsible for the audit, or any entity that a third party, with reasonable knowledge of all relevant information, could reasonably conclude that the entity is part of the domestic or international operations of the audit firm. The Audit Committee should report to the board of directors and make recommendations regarding any matters that require action or improvement;
- (II) to supervise and evaluate the internal audit work, responsible for overseeing and coordinating internal and external audits, and reviewing the following arrangements established by the Company: employees of the Company may confidentially raise concerns regarding potential misconduct related to financial reporting, internal controls, or other areas. The Audit Committee should ensure that appropriate arrangements are in place for the Company to conduct fair and independent investigations into such matters and to take appropriate action;

(III) to review the Company's financial information and its disclosures (including their integrity), and review significant financial reporting judgements contained in statements and reports. In reviewing these statements and reports before submission to the board of directors, the committee should focus particularly on:

1. any changes in accounting policies and practices;
2. major judgmental areas;
3. significant adjustments resulting from audit;
4. the going concern assumptions and any qualified opinion;
5. compliance with accounting standards; and compliance with relevant laws and regulations regarding financial reporting, as well as the securities regulatory rules of the place where the shares of the Company are listed. Members of the Audit Committee should maintain communication with the board of directors and senior management and meet with the Company's auditors at least twice a year. The Audit Committee will also consider any significant or unusual matters reflected or required to be reflected in such reports and accounts, and appropriately consider any issues raised by the Company's accounting and financial reporting personnel, compliance officers, or auditors;

(IV) to supervise and evaluate the Company's financial reporting system, risk management, and internal control, primarily including:

1. to review the Company's financial control, and unless expressly addressed by a separate risk committee under the board of directors, or by the board of directors itself, to review the Company's risk management and internal control systems;
2. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
3. to consider major investigation findings on risk management and internal control matters and management's response to these findings on its own initiative or as delegated by the board of directors;
4. where an internal audit function exists, to ensure co-ordination between the internal and external audit firms, 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;
5. to review the Group's financial and accounting policies and practices;

6. to review the external auditor's management letter, any material queries raised by the audit firm to management about accounting records, financial accounts or systems of control and management's response;
 7. to ensure that the board of directors responds promptly to the issues raised in the external firm's management letter;
 8. to report to the board of directors on matters related to the responsibilities of the Audit Committee;
 9. to consider other topics, as defined by the board of directors.
- (V) to be responsible for other matters as stipulated by laws and regulations, the securities regulatory rules of the place where the shares of the Company are listed, the Articles of Association, and as authorized by the board of directors.

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

- (I) the disclosure of financial information in financial accounting reports and periodic reports, and internal control evaluation reports;
- (II) the engagement or dismissal of the accounting firm responsible for the audit of the Company;
- (III) the appointment or dismissal of the person in charge of finance of the listed company;
- (IV) changes in accounting policies or accounting estimates or corrections of significant accounting errors for reasons other than changes in accounting standards;
- (V) other matters as required by laws, administrative regulations, requirements of the China Securities Regulatory Commission, the securities regulatory rules of the place where the shares of the Company are listed and the Articles of Association.

Article 10 The Audit Committee shall review the financial accounting reports of the listed company, advise on the truthfulness, accuracy and completeness of the financial accounting reports, focus on significant accounting and auditing issues in the financial accounting reports of the Company, pay particular attention to whether there is any possibility of fraud, fraudulent acts and material misstatement in relation to the financial accounting reports, and supervise the rectification of the issues in the financial accounting reports.

The Audit Committee shall make recommendations to the board of directors on the engagement or change of external auditors, review the audit fees and terms of engagement of the external auditors, and shall not be subject to any undue influence by the substantial shareholders, de facto controllers, directors or senior management of the listed company.

The Audit Committee shall urge the external auditors to act honestly, diligently and responsibly, strictly comply with the operating rules and self-regulatory rules of the industry, strictly implement the internal control system, verify and validate the Company's financial accounting reports, fulfil the duty of special care and prudently express professional opinions.

Article 11 If the directors or senior management of a listed company discover that there are false records, misleading statements or material omissions in the financial accounting reports issued by the Company and report it to the board of directors, or if the sponsor, independent financial advisor or external auditor points out to the board of directors that there are false records, misleading statements or material omissions in the financial accounting reports of the Company, the board of directors shall report to the stock exchanges in a timely manner and disclose such matters. The information to be disclosed shall include the material issues identified in the financial accounting reports, the consequences that have occurred or may occur, as well as the measures that have been taken or intended to be taken.

The Audit Committee shall urge relevant responsible departments of the Company to formulate rectification measures and the timing of rectification, conduct follow-up reviews, supervise the implementation of the rectification measures and disclose the completion of the rectification in a timely manner.

Article 12 The listed company shall disclose the annual performance of the Audit Committee in the annual report, mainly including the specific performance of its duties and the convening of the Audit Committee meetings.

If the Audit Committee makes recommendations to the board of directors on matters within the scope of its duties and responsibilities, and the board of directors does not adopt such recommendations, the Company shall disclose such matters and fully explain the reasons thereof.

Article 13 The Audit Committee shall be accountable to the board of directors and the proposals of the committee shall be submitted to the board of directors for consideration and decision.

Article 14 The audit department shall be accountable and report to the Audit Committee. The Audit Committee shall perform the following major duties in supervising and evaluating the work of the audit department:

- (I) directing 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 the Company's internal audit plan;
- (IV) directing the effective operation of the audit department. The audit department of the Company shall report to the Audit Committee. All types of audit reports, rectification plans for auditing issues and rectification status submitted by the audit department to the management shall be submitted to the Audit Committee at the same time;
- (V) reporting to the board of directors the progress and quality of the internal audit work as well as material issues identified;
- (VI) coordinating the relationship between the audit department and external audit bodies such as accounting firms and national auditing institutions.

Article 15 The Audit Committee shall issue a written assessment on the effectiveness of the Company's internal control based on the internal audit report and relevant materials submitted by the audit department, and report to the board of directors. The Audit Committee shall supervise and direct the audit department to inspect the following matters at least once every six months, and issue inspection reports and submit them to the Audit Committee:

- (I) the implementation of major matters such as the use of proceeds raised by the Company, provision of guarantees, related-party transactions or connected transactions, securities investment and derivative transactions, provision of financial assistance, purchase or sale of assets, and external investments;
- (II) large capital flows of the Company and the financial transactions with directors, senior management, controlling shareholders, de facto controllers and their related parties or connected persons.

Article 16 The audit department of the Company shall review the deposit and use of proceeds at least once a quarter and report the results to the Audit Committee in a timely manner.

If the Audit Committee of the Company considers that there are non-compliance or significant risks in the management of the Company's proceeds or the audit department fails to submit the result report in accordance with the provisions of the preceding paragraph, it shall report to the board of directors in a timely manner.

Chapter IV Working Procedures

Article 17 The audit department of the Company is in charge of the preliminary preparation for the decision-making of the Audit Committee and provides the following written information of the Company:

- (I) relevant financial reports of the Company;
- (II) work reports of internal and external audit firms;

- (III) external audit contracts and relevant work reports;
- (IV) disclosure of information to the public by the Company;
- (V) audit reports on major related-party transactions or connected transactions of the Company;
- (VI) other relevant matters.

Article 18 The reports submitted by the audit department of the Company shall be considered at the meeting of the Audit Committee, and the relevant written resolutions shall be submitted to the board of directors for consideration:

- (I) evaluation on the performance of, and engagement and replacement of, the external audit firms;
- (II) whether the Company's internal audit systems have been implemented effectively and whether the Company's financial reports are complete and true;
- (III) whether information disclosed by the Company, including financial reports, is objective and true, and whether the Company's major related-party transactions or connected transactions are in compliance with the relevant laws and regulations;
- (IV) evaluation on the performance of the internal financial department and audit department of the Company, including their persons-in-charge;
- (V) other relevant matters.

Chapter V Rules of Procedure

Article 19 Meetings of the Audit Committee shall be classified as regular meetings and extraordinary meetings. Regular meetings shall be convened on a quarterly basis. Extraordinary meeting shall be convened upon proposal by two or more members, or when the convenor deems necessary. All members shall be notified three days before the meeting. The meeting shall be presided over by the chairman, who may entrust another member (shall be an independent non-executive director) to preside over the meeting if he/she is unable to attend.

Article 20 The meeting of the Audit Committee shall be held only when more than two-thirds of the members are present; each member shall have one vote; resolutions made at the meeting must be passed by a majority of all members.

Article 21 Members may vote at the meeting of the Audit Committee by the show of hands or by poll, which may be convened in the form of on-site meeting or correspondence voting.

Article 22 The head of the audit department may attend the meetings of the Audit Committee. Directors or senior management of the Company may be invited to attend the meetings if so required according to the work of the Audit Committee.

Article 23 Where necessary, the Audit Committee may engage intermediaries to provide professional advice for its decisions, and the cost shall be borne by the Company.

Article 24 The convening procedures, voting methods and proposals passed at the meeting of the Audit Committee must comply with requirements under relevant laws, administrative regulations, the securities regulatory rules of the place where the shares of the Company are listed, the Articles of Association and these terms of reference.

Article 25 The meeting of the Audit Committee shall be recorded, and the members attending the meeting shall sign the minutes of the meeting. The minutes of the meeting shall be kept by the secretary to the board of directors of the Company. The directors of the Company may inspect the minutes of the meeting at a reasonable time upon reasonable notice.

Article 26 Members and other person attending the meeting shall be obliged to keep confidentiality regarding the matters discussed at the meeting, and shall not disclose relevant information without authorization.

Chapter VI Supplementary Provisions

Article 27 These terms of reference shall be implemented from the date of approval by the board of directors, and any amendments shall be subject to the same procedure.

Article 28 The matters not covered herein shall be implemented in accordance with the relevant national laws and regulations, the securities regulatory rules of the place where the shares of the Company are listed and the Articles of Association. In case of any conflicts between these terms of reference and any laws and regulations promulgated by the state, the securities regulatory rules of the place where the shares of the Company are listed or the Articles of Association as amended under lawful procedures, the relevant national laws and regulations, the securities regulatory rules of the place where the shares of the Company are listed and the Articles of Association shall prevail.

Article 29 The board of directors of the Company shall be responsible for the interpretation and revision of these terms of reference.

Zhejiang Sanhua Intelligent Controls Co., Ltd.
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