

Breton Technology Co., Ltd.

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

Chapter I General

Article 1 These Terms of Reference are formulated for the audit committee (the “**Committee**”) of the board of directors (the “**Board**”) established by Breton Technology Co., Ltd. (the “**Company**”) in accordance with the Company Law of the People’s Republic of China, the Articles of Association of Breton Technology Co., Ltd. (the “**Articles of Association**”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”) and other relevant regulations, in order to strengthen the decision-making function of the Board, enhance internal supervision and risk control, improve the corporate governance structure of the Company, and regulate the Company’s audit work.

Article 2 The Committee is a special committee under the Board, which is principally responsible for the communication, supervision and verification of the Company’s internal control, risk management, financial information and internal audit, as well as maintaining the relationship with the external auditor. Meanwhile, the Committee is responsible for exercising the functions and powers of the Board of Supervisors as stipulated in the Company Law.

The Committee is accountable to the Board and reports to the Board; the Committee’s proposals shall be submitted to the Board for consideration and decision.

The members of the Committee shall ensure that sufficient time and efforts are devoted to the performance of the duties of the Committee, diligently, conscientiously and effectively monitor the external audit of the Company, guide the Company’s internal audit work, promote the Company to establish effective internal control and provide true, accurate and complete financial reports.

The Company shall provide proper resources for the operation of the Committee and assign special personnel or office to handle the daily operation of the Committee, including liaison, organization of meetings, preparation of materials and documentation, etc. The management and relevant departments of the Company shall provide cooperation when the Committee performs its duties.

Chapter II Composition

Article 3 The Committee shall be composed of three or more non-executive directors of the Company, a majority of whom should be independent non-executive directors, and shall not have any relationship with the Company that may affect their independent and objective judgment. At least one of the independent non-executive directors on the Committee shall have appropriate professional qualifications as required under Rule 3.10(2) of the Hong Kong Listing Rules, or accounting or financial management expertise. A former partner of the external auditor currently responsible for auditing the accounts of the Company shall not serve as a member of the

Committee for a period of two years from the later of (1) the date on which he/she ceases to be a partner of the external auditor; or (2) the date on which he/she ceases to have any financial interest in the external auditor.

Article 4 The members of the Committee shall be nominated by the chairperson of the Board, more than one-half of the independent non-executive directors or one-third of all directors, and be elected by the Board.

Article 5 The Committee shall have a chairperson (the convener) who shall be an independent non-executive director with professional accounting knowledge and shall be responsible for presiding over the work of the Committee. The chairperson of the Committee shall be elected among the members and submitted to the Board for approval of appointment.

Article 6 The term of office of the Committee shall be consistent with that of the Board. A member of the Committee may serve consecutive terms if re-elected upon the expiry of his/her term of office. During the period, any member of the Committee who no longer holds office as a director of the Company shall automatically cease to be a member of the Committee, and the Committee shall fill up the vacancy in accordance with these Terms of Reference. The original member shall continue to perform relevant duties under these Terms of Reference until the Board fills up the vacancy in time in accordance with these Terms of Reference.

A member who fails to attend meetings of the Committee in person (including on-site attendance and attendance by means of communication) for two consecutive times and fails to submit to the Committee a report on his/her views on the subject matter of the meeting shall be deemed to have failed to perform his/her duties, and the Committee shall recommend to the Board for removal and replacement.

Article 7 The members of the Committee may submit their resignation to the Board before his/her term expires. The resignation report shall give the necessary explanations on the reasons for the resignation as well as any matters requiring the attention of the Board.

Article 8 The Board shall evaluate the independence of and performance of duties by the members of the Committee and may replace the members who are not suitable for continuing to be a member as necessary. Subject to the proposal by the chairperson of the Board and the discussion and approval by the Board, the Committee members may be adjusted during their term of office.

Article 9 An internal audit department is a daily operational office that shall be established under the Committee. The internal audit department is responsible for the preparatory work for the Committee's decision-making and preparation of relevant meeting materials.

Chapter III Duties and Authorities

Article 10 The primary duties and authorities of the Committee include:

- (1) supervising and evaluating the work of the external auditor;
- (2) guiding and supervising the internal audit of the Company;
- (3) reviewing the financial reports of the Company and expressing opinions on them;
- (4) evaluating the effectiveness of internal control;
- (5) coordinating the communication between the management, the internal audit department and relevant departments and the external auditor;
- (6) reviewing the financial conditions of the Company;
- (7) monitoring the performance of duties by the directors and senior management and proposing the removal of directors and senior management who have violated laws, administrative regulations, the Articles of Association or the resolutions of general meetings;
- (8) requiring directors and senior management to make rectification when any act thereof harms the interests of the Company;
- (9) proposing the convening of extraordinary general meetings, and convening and presiding over general meetings when the Board does not perform the duty of convening and presiding over general meeting as stipulated in the Company Law;
- (10) submitting proposals to the general meetings;
- (11) initiating legal proceedings against directors and senior management in accordance with the Company Law;

- (12) verifying the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the Board to the general meetings and, should any queries arise, authorizing, in the name of the Company, a re-examination by the certified public accountants and practicing auditors for the time being at the expenses of the Company;
- (13) conducting an investigation if there is any unusual circumstance in the Company's operations; and if necessary, engaging an accounting firm, law firm or other professional institutions to assist in their work at the expenses of the Company;
- (14) making suggestions on the preparation and amendment of profit distribution policy of the Company; and
- (15) other matters authorized or required to be performed by laws and regulations, the Hong Kong Listing Rules and other relevant regulatory rules of the place where the Company is listed, the Articles of Association, these Terms of Reference and the Board.

Article 11 The duties of the Committee on supervising and evaluating the work of external auditors shall include:

- (1) making recommendations to the Board on the appointment, reappointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and dealing with any questions of its resignation or dismissal;
- (2) evaluating and monitoring the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with applicable standards, and overseeing and evaluating the external auditor's diligence; the Committee shall discuss the nature and scope of the audit and reporting obligations with the auditor before the audit commences, and discuss and communicate the audit plan, audit methods and any significant matters identified with the external auditor during the audit; and
- (3) developing and implementing policies on engaging external auditors to supply non-audit services. In this regard, "external auditor" shall include any entity that is under common control, ownership or management with the audit firm or any entity that a third party with reasonable knowledge of all relevant information would reasonably conclude to be part of the local or international operations of the audit firm. The Committee shall report to the Board and make recommendations on any matters where action or improvement is needed.

The Committee shall meet with external auditors for separate communication at least once a year without the attendance of the management. The secretary to the Board may attend the meeting.

Article 12 The duties of the Committee on guiding the internal audit work shall include:

- (1) reviewing the annual internal audit plan of the Company;
- (2) supervising the implementation of the internal audit plan of the Company;
- (3) reviewing the internal audit reports, evaluating the results of internal audit, and supervising the rectification of major issues; and
- (4) guiding the effective operation of the internal audit department.

The Company's internal audit department shall report to the Committee. Any audit reports, plans for rectification of audit issues and rectification progress shall be forwarded to the Committee while being submitted to the management by the internal audit department.

Article 13 The duties of the Committee on reviewing and expressing opinions on financial reports of the Company shall include:

- (1) reviewing the integrity of the Company's financial reports, annual reports and accounts, half-year reports and quarterly reports (if prepared for publication), and reviewing significant financial reporting judgements contained in these statements and reports. In reviewing these statements and reports, before submission to the Board, the Committee shall focus particularly on: (i) any changes in accounting policies and practices; (ii) areas involving significant judgments; (iii) significant adjustments resulting from audit; (iv) the going concern assumptions and any qualifications; (v) compliance with applicable accounting standards; and (vi) compliance with the Hong Kong Listing Rules and applicable legal requirements in relation to financial reporting. In this regard, members of the Committee should liaise with the Board and senior management. The Committee must meet, at least twice a year, with external auditors of the Company;
- (2) focusing on and considering any significant or unusual items and material accounting and auditing issues that are reflected or need to be reflected in the Company's financial report and accounts, including adjustments for material accounting errors, changes in significant accounting policies and estimates, matters involving critical accounting judgements, and matters resulting in a non-standard unqualified audit report while considering any matters raised by the Company's head of finance or by the external auditor;

- (3) paying special attention to whether there are frauds or malpractices relating to the financial reports and the possibility of major misreporting; and
- (4) supervising the rectification of financial reporting issues.

Article 14 The duties of the Committee on assessing the effectiveness of internal control shall include:

- (1) reviewing the Company's financial controls, and the Company's risk management and internal control systems;
- (2) discussing the risk management and internal control systems with the management of the Company to ensure that the management has performed its duty to establish effective internal control systems. The 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) considering major investigation findings on risk management and internal control matters on its own initiative or as delegated by the Board and the management's response to such findings;
- (4) ensuring co-ordination between internal audit and external auditors and that internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring the effectiveness of internal audit;
- (5) reviewing the group's financial and accounting policies and practices;
- (6) reviewing the external auditors' management letter, any material queries raised by the auditor to the management in relation to the accounting records, financial accounts or internal control and the management's response;
- (7) ensuring that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (8) reporting to the Board on matters relating to the Corporate Governance Code; and
- (9) considering other topics as defined by the Board.

Article 15 The duties of the Committee on coordinating the communications among the management, the internal audit department and relevant departments with the external auditor shall include:

- (1) coordinating the communication between the management and the external auditor on major audit issues;

- (2) coordinating the communication between the internal audit department and external auditors and facilitating coordination with the external auditors' work; and
- (3) acting as the key representative body for overseeing the Company's relations with the external auditor.

Article 16 The Committee shall report to the Board and make recommendations on any matters where action or improvement is needed.

Article 17 The Committee may engage intermediary institutions to seek professional advice as it deems necessary at the Company's expense.

Article 18 In the event of appointment or change of external auditors by the Company, relevant proposal shall not be considered by the Board until deliberations and recommendations of the Committee are presented to the Board.

Article 19 The Committee shall review the arrangements set up by the Company whereby employees of the Company may raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for the Company to conduct impartial and independent investigation of these matters and for appropriate follow-up action.

Chapter IV Rules of Procedure

Article 20 Committee meetings shall comprise regular meetings and interim meetings and shall be convened and presided over by the chairperson of the Committee. When the convener of the Committee cannot or refuses to perform his/her duties, an independent non-executive director shall be delegated to perform the duties on his/her behalf.

Article 21 The Committee shall convene at least two regular meetings each year. The Committee may convene interim meetings as needed. When two or more members of the Committee propose, or the convener of the Committee deems it necessary, an interim meeting may be convened. The chairperson of the Committee shall give written notice to all members of the Committee for convening of regular and interim meetings three days in advance.

Article 22 Committee meetings shall be held in the presence of more than two-thirds of the members, each of whom shall have one vote. Resolutions made at the meetings shall be passed by a majority of all the members. In the event of an equal number of affirmative and negative votes, the chairperson of the Committee shall have the right to cast one more vote. In the event that no effective review opinion is concluded due to the recusal of the members of the Audit Committee, the relevant matters shall be considered directly by the Board.

Any Committee member who has an interest in the matter discussed at the meeting shall recuse from discussion and abstain from voting. If the Committee members cannot form an effective opinion due to such recusal, the relevant matters shall be directly considered by the Board.

Article 23 Meetings of the Committee may be held on-site or by means of communication. Voting shall be taken by way of a poll.

Article 24 Members of the Committee shall attend meetings in person (including on-site attendance and attendance by means of communication) and shall express clear opinions on the matters under consideration. A Committee member who is unable to attend a meeting in person for any reason may appoint another member by a duly signed proxy letter to attend the meeting and express opinions on his/her behalf. The proxy letter shall specify the scope and validity period of the authorization. Each member of the Committee can act as the proxy of at most one other member. If an independent non-executive director cannot attend the meeting in person for any reason, he/she shall appoint another independent non-executive director to attend the meeting on his/her behalf.

Article 25 Members of the Company's internal audit department may attend Committee meetings. When the Committee deems necessary, it may invite the financial personnel, other directors and senior management of the Company, representatives of external auditors, legal advisers and other relevant personnel to attend meetings of the Committee and provide necessary information.

Article 26 Minutes should be kept for the Committee meetings on all concerns raised or dissenting views expressed by members, and shall record at least the following: date, time, venue, moderator, participants, agenda of the meeting, main points of each speaker's statement on each matter under consideration, voting results of each matter and other matters that should be stated and recorded in the minutes. Draft and final versions of the minutes shall be sent to all members of the Committee within a reasonable period of time after the meeting for the members' comments and records, respectively. The finalized version of the minutes of the Committee meeting shall be signed by the members and other persons present at the meeting. The minutes shall be kept properly by the secretary of the meeting or company secretary.

The resolutions passed at the Committee meetings shall be submitted in writing to the Board.

Article 27 All persons attending the meeting shall be obligated to keep the matters discussed thereat confidential and shall not disclose relevant information without authorization.

Article 28 The procedures for convening meetings, the voting methods and the resolutions passed at the meetings of the Committee shall comply with relevant laws and regulations, the Articles of Association and these Terms of Reference.

Chapter V Supplementary Provisions

Article 29 Any matters not covered hereunder shall be subject to the provisions of relevant national laws, regulations, other regulatory documents, the Hong Kong Listing Rules and the Articles of Association; if these rules of procedure are in conflict with the national laws, regulations and other regulatory documents promulgated in the future, or the Hong Kong Listing Rules or the Articles of Association as amended by lawful procedures, the latter shall prevail and amendment to these Terms of Reference shall be made immediately and submitted to the Board for consideration and approval.

Article 30 Amendments to these Terms of Reference shall be proposed and approved by the Board to become effective.

Article 31 These Terms of Reference shall be interpreted and amended by the Board.