

ZHEJIANG LAIFUAL DRIVE CO., LTD.

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

Chapter I General Provisions

- Article 1 In order to establish and regulate the audit systems and procedures of Zhejiang Laifual Drive Co., Ltd. (浙江來福諧波傳動股份有限公司) (hereinafter referred to as the “Company”), to strengthen the decision-making function of the Board of Directors, to ensure the effective supervision by the Board of Directors over the management, and to enhance the corporate governance structure, the Company has established the Audit Committee of the Board of Directors (hereinafter referred to as the “Committee”) and formulated these terms of reference (hereinafter referred to as the “Terms”) in accordance with the Company Law of the PRC (2023 Revision), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Listing Rules”), the Articles of Association of Zhejiang Laifual Drive Co., Ltd (hereinafter referred to as the “Articles of Association”), as well as other relevant laws, regulations, normative documents and the securities regulatory rules of the place(s) where the shares of the Company are listed.
- Article 2 The Committee is a specialized working body established under the Board of Directors, and is primarily responsible for the communication, supervision and verification of internal and external audits, as well as the risk management and internal control of the Company. The Committee shall be accountable to the Board of Directors and report its work to the Board of Directors. The Audit Committee shall perform its duties in accordance with the laws and regulations, the securities regulatory rules of the place(s) where the shares of the Company are listed, the Articles of Association and the authorization of the Board of Directors. Unless otherwise provided, the proposals of the Audit Committee shall be submitted to the Board of Directors for consideration and approval.
- Article 3 These Terms shall apply to the Committee and to the relevant personnel and departments referred to herein.

Chapter II Composition of the Committee

- Article 4 The Committee shall consist of at least three Directors and shall comprise solely non-executive Directors, of whom a majority shall be independent non-executive Directors. Members of the Committee shall possess professional knowledge and commercial experience in areas such as finance or law commensurate with their duties. At least one member shall possess the appropriate professional qualifications or accounting or related financial management expertise, meeting the qualification requirements for financial professionals of an Audit Committee under the Hong Kong Listing Rules.
- The Board of Directors shall evaluate the independence and performance of the Committee members on a regular basis and, where necessary, replace members who are deemed unsuitable. A former partner of the Company's existing external audit firm shall not act as a member of the Committee for a period of two years from the date of their departure from the existing external audit firm or the date upon which they cease to have any financial interest in the existing external audit firm, whichever is the later.
- Article 5 Members of the Committee shall be nominated by the chairman of the Board of Directors, more than one-half of the independent non-executive Directors or more than one-third of all Directors, and shall be elected by the Board of Directors and approved by more than one-half of all Directors.
- Article 6 The Committee shall have one chairman who shall be an independent non-executive Director, and is responsible for presiding over the work of the Committee. The chairman shall be nominated by the chairman of the Board of Directors of the Company, and considered and approved by the Board of Directors. The chairman of the Committee must possess the appropriate accounting or related financial accounting expertise.
- Article 7 The term of office of the Committee shall be the same as that of the current Board of Directors, and the term of office of each member shall be the same as his or her term of directorship. Upon expiration of the term of office, a member may be re-elected and re-appointed. If a Committee member, during his or her term of office, ceases to hold office as a Director of the Company, or if a member who is required to be an independent non-executive Director no longer satisfies the independence requirements under the Hong Kong Listing Rules, his or her qualification as a member shall automatically lapse, and the vacancy shall be filled by the Board of Directors in accordance with the aforementioned provisions.

- Article 8 Members of the Committee may tender their resignation to the Board of Directors prior to the expiration of their term of office, and the resignation report shall provide the necessary explanations regarding the reasons for resignation and the matters requiring the attention of the Board of Directors of the Company. Where the number of members of the Committee falls below the minimum number prescribed in these Terms of Reference, the resigning member shall continue to perform their relevant duties until a substitute member appointed by the Board of Directors assumes office.
- Article 9 Upon a proposal by the Chairman of the Board of Directors and upon deliberation and approval by the Board of Directors, adjustments may be made to the members of the Committee during their term of office.
- Article 10 Where the composition of the Committee fails to satisfy the requirements under these Terms, the Board of Directors shall immediately issue an announcement in accordance with the requirements of the Hong Kong Listing Rules, setting out the details of and reasons for such non-compliance, and shall make up the shortfall in accordance with the provisions of these Terms within three months from the date of such non-compliance. The term of office of the member appointed to fill the vacancy shall end upon the expiration of his/her term of office as a Director.
- Article 11 Under the coordination of the Office of the Board of Directors, the audit department of the Company, serving as the working body of the Committee, shall provide support and services for the work of the Committee, and undertake the relevant work assigned by the Committee.

Chapter III Duties of the Committee

- Article 12 The Committee, on behalf of the Board of Directors, shall independently evaluate and supervise the compliance, legality and effectiveness of the business operations of the enterprise, with its primary duties being:
- (1) to make recommendations to the Board of Directors on the appointment, reappointment and replacement of the external auditor, to advise the Board of Directors on the remuneration and terms of engagement of the external auditor, and to deal with any issues regarding the resignation or dismissal of such auditor;

- (2) to review and monitor the external auditor's independence and objectivity as well as the effectiveness of the audit process in accordance with applicable standards. The Committee shall, prior to the commencement of the audit, discuss with the auditor the nature, scope and methodology of the audit and the relevant reporting obligations.

In order to carry out the independence investigation of the external auditor, the Committee is required to complete the following work: review the relationship between the Company and the firm under consideration (including non-audit services); obtain from the audit firm annually information regarding the audit firm's maintenance of its independence and monitoring of compliance with relevant requirements, including the requirements relating to the rotation of audit partners and staff; meet with the external auditor at least once a year in the absence of management, to discuss audit fees, any issues arising from the audit, and any other matters the audit firm may wish to raise;

- (3) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm; and any entity that a reasonable and informed third party, having full knowledge of all relevant information, would reasonably conclude to be part of the audit firm's local or international business. The Committee shall report to the Board of Directors, identifying and making recommendations on any matters where action or improvement is needed;
- (4) to monitor the integrity of the Company's financial statements and the Company's annual report and accounts, half-year report and quarterly reports (if any), and to review significant financial reporting judgements contained therein. The Committee shall pay particular attention to the possibility of fraud, irregularities and material misstatements in relation to the financial statements and reports. When reviewing the relevant statements and reports before submission of the Company's annual report and accounts, half-year report and quarterly reports to the Board of Directors, the Committee shall focus in particular on reviewing the following matters:
 - i. any changes in accounting policies and practices;
 - ii. major judgmental areas;
 - iii. significant adjustments resulting from audit;
 - iv. the going concern assumption of the enterprise and any qualifications;

- v. compliance with the accounting standards; and
 - vi. compliance with the Hong Kong Listing Rules and other legal requirements in relation to financial reporting.
- (5) In respect of item (4):
- i. members of the Committee shall liaise with the Board of Directors and the senior management of the Company. The Committee shall meet with the external auditors of the Company at least twice a year;
 - ii. the Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and shall give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (6) to monitor the Company's financial controls, internal controls and risk management systems;
- (7) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to establish effective risk management and internal control systems, including considering the adequacy of resources, staff qualifications and experience in respect of the Company's accounting and financial reporting functions, as well as the adequacy of training provided to the staff and the related budget;
- (8) to consider 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 these findings;
- (9) to monitor the internal audit system of the Company; to ensure that the internal audit system is provided with sufficient resources and has appropriate standing within the Company; to review and monitor the effectiveness of the internal audit system; where the Company has an internal audit function, to ensure that the work of the internal and external auditors is coordinated; as well as to ensure that the internal audit function has sufficient resources for its operation and has appropriate standing within the Company, and to review and monitor its effectiveness;

- (10) to facilitate communication between the internal audit department and the external auditor, and to ensure that the work of the internal and external auditors is coordinated;
- (11) to review the Company's financial and accounting policies and practices;
- (12) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of accounting records, financial accounts or systems of control and management's response;
- (13) to ensure that the Board of Directors provides a timely response to the issues raised in the external auditor's management letter;
- (14) to oversee the arrangements established by the Company for employees to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place to allow the Company to conduct fair and independent investigation of these matters and take appropriate follow-up action;
- (15) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (16) to consider the Company's risk management strategies and major risk management solutions;
- (17) to be responsible for the confirmation of the list of the Company's connected persons (as defined under the Hong Kong Listing Rules), the overall review of connected transactions, and the regular review of the overall status of the Company's connected transactions, including, specifically, verifying the decision-making and implementation of connected transaction matters across the Company within 10 days after the end of each half-year period, reviewing the overall status of connected transactions across the Company within 30 days after the end of each half-year period, and, upon forming a review opinion, reporting the same to the Board of Directors and the Supervisory Committee of the Company;
- (18) review the Company's compliance with the Corporate Governance Code set out in Appendix C1 to the Hong Kong Listing Rules and the disclosures in the Corporate Governance Report set out in the annual report; report to the Board of Directors on matters within the scope of the Committee's duties and authorities (including decisions or recommendations made by the Committee);

- (19) to be responsible for evaluating and determining the environmental, social and governance (ESG) risks of the Company, and ensuring that the Company establishes appropriate and effective ESG risk management and internal control systems;
- (20) to report to the Board of Directors on the matters set out in these Terms;
- (21) to consider other matters as authorized by the Board of Directors of the Company or as required by relevant laws and regulations;
- (22) other matters stipulated by laws, administrative regulations, the securities regulatory rules of the place(s) where the shares of the Company are listed, the Articles of Association and these Terms, and other matters authorized by the Board of Directors.

Article 13

The duties of the chairman of the Committee are:

- (1) to convene and preside over meetings of the Committee;
- (2) to supervise and inspect the work of the Committee and the implementation of the Committee's resolutions;
- (3) to sign relevant documents of the Committee;
- (4) to report to the Board of Directors of the Company on the work of the Committee;
- (5) to attend the annual general meeting of the Company and answer questions from Shareholders on matters relating to the duties of the Committee. If the chairman of the Committee is unable to attend the annual general meeting, another member of the Committee or a duly appointed delegate shall attend;
- (6) to perform other duties required to be performed or delegated by the laws and regulations, the Hong Kong Listing Rules and other relevant regulatory rules of the place of listing, these Terms of Reference, and the Board of Directors.

Article 14

The main duties of the Committee members are:

- (1) to attend meetings of the Committee punctually, express views on matters discussed, and exercise voting rights at the meetings;
- (2) to submit proposals for discussion at the meetings of the Committee;
- (3) to attend or observe relevant meetings of the Company for the purpose of performing his/her duties, conduct investigations and research, and obtain necessary reports, documents, materials and other relevant information;
- (4) to fully understand the duties of the Committee and his/her role as a member of the Committee, and familiarize himself/herself with the operation and management, business activities and development of the Company relevant to his/her duties, so as to ensure his/her capability for the performance of duties;
- (5) to ensure that he/she has devoted sufficient time and attention to fulfil his/her duties;
- (6) such other functions and powers as may be conferred by laws and regulations, the Hong Kong Listing Rules and other relevant regulatory rules of the place of listing, these Terms, or delegated by the Board of Directors.

Chapter IV Meetings of the Committee

Article 15

Meetings of the Committee are divided into regular meetings and extraordinary meetings.

Article 16

Regular meetings shall be held at least twice a year, and all members shall be notified in writing three days prior to the meeting. One of the regular meetings shall be held before the Board of Directors reviews the annual report each year.

Article 17

The Committee may convene extraordinary meetings as necessary. The chairman of the Committee shall issue a notice to convene a meeting within three days from the date of the occurrence of any of the following events:

- (1) when the Board of Directors deems it necessary;
- (2) when the chairman of the Committee deems it necessary;
- (3) when a proposal is made by two or more members.

The external auditors of the Company may request that an extraordinary meeting be held when they deem it necessary.

- Article 18 The audit department shall be responsible for serving the notice of meeting in writing to all members and relevant personnel invited to attend the meeting 3 days prior to the convening of the meeting (except in special circumstances where the prior notice obligation is waived, provided that the chairman of the meeting shall make an explanation at the meeting). The meeting notice shall include the form, time, venue, duration and agenda of the meeting, the time of issuance of the notice, the contact person and his/her contact details, and relevant data.
- The audit, finance and legal departments of the Company, as well as the office of the Board of Directors, shall be responsible for preparing and providing the relevant materials required for the matters to be considered at the meeting, and shall be responsible for liaising with relevant parties (including the relevant experts of the Company, external experts, scholars, and intermediaries engaged by the Committee in connection with the matters under deliberation).
- Article 19 Upon receipt of the meeting notice, members of the Committee shall promptly provide confirmation and relevant replies (including but not limited to the confirmation of attendance and itinerary arrangements) through appropriate means.
- Article 20 Members of the Committee shall attend the meeting in person. If a member is unable to attend a meeting in person for any reason, such member may, by signing and submitting a proxy form, authorize another member of the Committee to attend and express opinions at the meeting on his/her behalf. Such proxy form shall specify the scope and term of the authorization. Each member may only appoint one other member to exercise voting rights on his/her behalf at a time. If a member appoints two or more proxies to exercise voting rights, such appointment shall be invalid. Meanwhile, no member shall concurrently act as proxy for two or more other members.
- The members attending a meeting as a proxy shall exercise rights within the scope of authorization. If a member fails to attend a Committee meeting in person, and neither appoints another member of the Committee to exercise rights on his/her behalf nor submits written opinions prior to the convening of the meeting, he/she shall be deemed to have waived his/her rights.
- A member who is unable to attend the meeting in person may also exercise his/her rights by submitting written opinions on the matters to be considered, provided that such written opinions shall be submitted to the audit department prior to the convening of the meeting at the latest.

Article 21 If a Committee member fails to attend Committee meetings in person for two consecutive times, and neither appoints another Committee member to attend on his/her behalf nor submits any written opinion prior to the meetings; or if a member's personal attendance at meetings within one year is less than three-quarters of the total number of meetings, such member shall be deemed unable to perform the duties of the Committee, and the Board of Directors may adjust the Committee members in accordance with these Terms.

Article 22 A meeting of the Committee may only be held with the attendance of two-thirds or more of its members. The meeting shall be presided over by the chairman of the Committee. If the chairman of the Committee is unable to attend the meeting, he/she may appoint another member of the Committee to preside over the meeting. Where the chairman of the Committee neither performs his/her duties nor appoints another member to act on his/her behalf, any member may report the relevant circumstances to the Board of Directors of the Company, and the Board of Directors of the Company shall designate an independent non-executive Director who is a Committee member to perform the duties of the chairman of the Committee.

Chapter V Procedures of Meetings

Article 23 Each member of the Committee shall have one vote. A resolution of the meeting shall be passed by over half of the votes of all members. In the event that the meeting fails to reach a valid resolution due to the abstention of member, the relevant matter shall be submitted directly to the Board of Directors for consideration.

Article 24 Meetings of the Committee shall, in principle, be held by way of on-site meeting, video conference or teleconference. For an extraordinary meeting, where it be impracticable to hold an on-site meeting, video conference or teleconference in case of emergency, force majeure or other special circumstances, such meeting may be held by means of written communication. Where a meeting is conducted by means of written communication, the Committee members shall submit to the Board of Directors their written opinions on the matters to be discussed within the period specified in the notice of the meeting.

Article 25 Voting at the meetings of the Committee shall be conducted by a show of hands or by poll. Where any member attending a telephone or video conference is unable to sign the resolutions in real-time, he/she may first express his/her views orally and complete the written signature procedures as soon as practicable. The subsequent written signatures must be consistent with the oral views expressed at the meeting.

- Article 26 At meetings of the Committee, matters under consideration shall be deliberated and discussed. Committee members shall, based on their own judgment, express their opinions clearly, independently and fully; any dissenting opinions shall be set out in the meeting minutes submitted to the Board of Directors.
- Article 27 The Committee may invite Directors, relevant senior management and relevant experts of the Company, as well as external experts, scholars, intermediary agencies and relevant persons to attend the meeting as observers. Those invited shall give explanations and elaborations on any matters as requested by any Committee member.
- Article 28 Where the Committee deems it necessary, it may, upon approval of the Board of Directors, seek professional advice from external professionals or institutions. Any reasonable cost so incurred shall be borne by the Company.
- Article 29 Where a member of the Committee has a material interest in a matter being considered by the Committee, such member shall withdraw from the meeting in respect of that matter.
- Article 30 All persons attending the meeting shall owe a duty of confidentiality regarding the matters discussed at the meeting, and shall not disclose the relevant information without authorization.

Chapter VI Meeting Minutes and Meeting Summaries

- Article 31 Minutes shall be kept for meetings of the Committee. The meeting minutes shall be prepared by the audit department and include the following:
- (1) the meeting number, the manner of convening, date, venue and name of the chairman of the meeting;
 - (2) the attendance and absence of members in person and by proxy;
 - (3) the names and titles of each attendee;
 - (4) the agenda of the meeting;
 - (5) the main points made by the Committee members and relevant attendees;
 - (6) the name of the minute-taker;
 - (7) the abstention from voting of any interested member (if any), which shall be specified in the minutes or the relevant resolutions.

Members present at the meeting shall sign the minutes of the Committee meeting. The meeting minutes shall be circulated to all Committee members for their comment within a reasonable time after the meeting.

Article 32 Upon the conclusion of the Committee meeting, the audit department shall be responsible for preparing the summary of the Committee meeting based on the matters deliberated and discussed at the meeting.

In addition to being submitted to the Board of Directors of the Company, the meeting summary shall also be forwarded to the members of the Committee, the secretary to the Board of Directors, the audit, finance and legal departments of the Company, as well as the relevant departments and persons.

Article 33 Meeting minutes, meeting summary, proxy forms, written opinions of the members of the Committee and other materials of the meeting of the Committee shall be kept by the office of the Board of Directors in accordance with relevant requirements.

Chapter VII Supplementary Provisions

Article 34 Unless otherwise stated, terms used herein shall have the same meanings as those ascribed to them in the Articles of Association.

Article 35 For matters not covered in these Terms, or in the event of any contradiction with any laws, administrative regulations, departmental rules, other normative documents, the Hong Kong Listing Rules and other relevant regulatory rules of the place of listing promulgated after these Terms become effective, or the Articles of Association as amended pursuant to lawful procedures, the provisions of the relevant national laws, administrative regulations, departmental rules, other normative documents, the Hong Kong Listing Rules and other relevant regulatory rules of the place of listing, and the Articles of Association shall prevail. These Terms shall be amended immediately and submitted to the Board of Directors for consideration and approval.

Article 36 These Terms shall come into effect and be implemented immediately upon consideration and approval by the Board of Directors.

Article 37 Save for certain provisions formulated to meet the requirements of the public offering and listing of the Company's shares, which shall come into effect from the date on which the H Shares publicly issued by the Company are listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited, the remaining provisions of these Terms shall be implemented when these Terms take effect.

Article 38 The rights of interpretation and amendment of these Terms shall be vested in the Board of Directors of the Company.