

Red Avenue New Materials Group Co., Ltd.

Terms of Reference of the Audit Committee of the Board of Directors

CHAPTER I GENERAL PROVISIONS

Article 1 In order to enhance the scientific basis of the decision-making of the Board of Directors of Red Avenue New Materials Group Co., Ltd. (the “**Company**”), improve the quality of decision-making, ensure prior audit review and professional audit oversight, strengthen the effective supervision of senior management by the Board of Directors, and further improve the corporate governance structure of the Company, the Company has established the Audit Committee of the Board of Directors (the “**Audit Committee**”) and formulated these Terms of Reference in accordance with the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, the Code of Corporate Governance for Listed Companies, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Articles of Association of Red Avenue New Materials Group Co., Ltd. (the “**Articles of Association**”), and other relevant laws, regulations and provisions.

Article 2 The Audit Committee is a specialized committee established by the Board of Directors pursuant to the Articles of Association. It is primarily responsible for reviewing the Company’s financial information and its disclosure, and supervising and evaluating its internal and external audit work and internal control.

CHAPTER II COMPOSITION OF MEMBERS

Article 3 The Audit Committee shall consist of three directors, of whom two shall be independent directors. At least one independent director shall possess appropriate professional qualifications, or accounting or related financial management expertise as required under the relevant regulations (including the Listing Rules). Members of the Audit Committee shall be non-executive directors who do not hold any senior management position in the Company.

Article 4 Members of the Audit Committee shall be elected by the Board of Directors.

Article 5 The Audit Committee shall have one chairman (the convener), who shall be an independent director with accounting expertise, and responsible for convening and presiding over meetings of the Audit Committee and overseeing the work of the Committee. The chairman shall be elected by the members of the Audit Committee and approved by the Board of Directors.

Article 6 A former partner of the Company’s existing external auditor shall not serve as a member of the Audit Committee within two years from the later of the date on which he or she ceases to be a partner of that audit firm or the date on which he or she ceases to have any financial interest in that audit firm.

Article 7 The term of office of members of the Audit Committee shall be the same as their term of office as directors of the Board. Members may be re-elected upon expiration of their term. However, the term of continuous service of an independent director shall not exceed six years. Where a member ceases to serve as a director of the Company during his or her term, he or she shall automatically cease to be a member of the Audit Committee, and the Board of Directors shall appoint a replacement in accordance with Articles 3 to 5 above. Where the resignation of a member results in the number of Audit Committee members falling below the statutory minimum or the Committee lacking a member with the required professional qualifications or appropriate accounting or financial management expertise, the existing members shall continue to perform their duties until a new member assumes office.

The Audit Committee shall establish an Audit Department as its supporting working body, which shall be responsible for day-to-day liaison, meeting organization and other routine matters. Members of the Audit Department shall be appointed by the Audit Committee. When the Audit Committee performs its duties, the Company's management and relevant departments shall provide full cooperation. Directors and senior management shall truthfully provide relevant information and materials to the Audit Committee and shall not obstruct the Committee in the exercise of its functions and powers, so as to ensure that the Audit Committee performs its duties without interference.

CHAPTER III DUTIES AND POWERS

Article 8 The principal duties and powers of the Audit Committee shall include the following:

- (1) Reviewing the financial information of the Company and its disclosure;
- (2) Making recommendations to the Board of Directors on the appointment, re-appointment, replacement or removal of the external auditor, approving and reviewing the audit fees and terms of engagement of the external auditor, and dealing with any matters relating to the resignation or dismissal of the external auditor;
- (3) Reviewing and monitoring the independence and objectivity of the external auditor and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditor the nature and scope of the audit and the relevant reporting obligations before the commencement of the audit;
- (4) Formulating and implementing policies on the provision of non-audit services (if any) by the external auditor. For the purpose of this provision, the external auditor includes any entity that is under common control, ownership or management with the audit firm, or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be part of the

audit firm's national or international business. The Audit Committee shall report to the Board of Directors on any matters that it considers necessary to take action on or to improve, and make relevant recommendations;

- (5) Reviewing the completeness of the Company's financial statements and its annual report and accounts, half-year report and, where applicable, quarterly reports, and reviewing significant financial reporting judgments contained therein. Before submitting such reports to the Board of Directors, the Audit Committee shall pay particular attention to the following matters:
 - i. Any changes in accounting policies and practices;
 - ii. Matters involving significant judgments;
 - iii. Material adjustments arising from the audit;
 - iv. The going concern assumption and any qualified opinions;
 - v. Whether to comply with accounting standards;
 - vi. Whether to comply with the provisions regarding financial reporting in applicable laws and the Listing Rules.
- (6) For the purpose of performing the duties set out in paragraph (5) above:
 - i. Members of the Audit Committee shall maintain communication with the Board of Directors and senior management, and the Audit Committee shall meet with the external auditor of the Company at least twice a year;
 - ii. The Audit Committee shall consider any significant or unusual matters reflected in, or required to be reflected in, the financial reports and accounts, and shall give due consideration to any matters raised by the Company's financial staff, internal auditors, compliance personnel or the external auditor engaged by the Company;
- (7) Supervising and evaluating the internal audit work, and coordinating the work between internal audit and external audit;
- (8) Reviewing the Company's financial controls, and overseeing, evaluating and reviewing the risk management and internal control systems of the Company;
- (9) Discussing the risk management and internal control systems with management to ensure that management has fulfilled its duty to establish effective systems. Such discussion shall include consideration of whether the resources, staff qualifications and experience in the Company's accounting and financial reporting functions are adequate, and whether the training programs and related budgets for staff are sufficient;

- (10) Considering, either on its own initiative or as delegated by the Board of Directors, the findings of major investigations relating to risk management and internal control matters and management's response to such findings;
- (11) Ensuring that the work of the internal audit department and the external auditor is properly coordinated; ensuring that the internal audit department has adequate resources to operate and an appropriate standing within the Company; and reviewing and monitoring the effectiveness of the internal audit department;
- (12) Reviewing the financial and accounting policies and practices of the Company and its subsidiaries;
- (13) Reviewing the management letter issued by the external auditor to the management, and any major queries raised by the external auditor to management regarding accounting records, financial accounts or internal control systems, together with management's responses;
- (14) Ensuring that the Board of Directors provides a timely response to the matters raised in the management letter submitted by the external auditor to management;
- (15) Reporting to the Board of Directors on matters relating to the provisions of the Corporate Governance Code set out in Appendix C1 to the Listing Rules;
- (16) Ensuring that the Company has established appropriate channels for employees to raise concerns and questions, in confidence, about possible improprieties in financial reporting, internal control or other matters, and reviewing such arrangements from time to time to ensure that proper and independent investigation of such matters is conducted and appropriate follow-up actions are taken;
- (17) Acting as the key representative body for overseeing the relationship between the Company and the external auditor;
- (18) Reviewing the Company's compliance with the Corporate Governance Code under the Listing Rules and the disclosure in the Corporate Governance Report, and exercising such other powers of the Audit Committee as prescribed under the Listing Rules;
- (19) Reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (20) Conducting an annual review of these Terms of Reference and the effectiveness of the performance of its duties, and making recommendations to the Board of Directors for any amendments that it considers necessary;
- (21) Exercising the powers of the supervisory board as provided under the Company Law;

- (22) Exercising such powers as the Audit Committee considers necessary or desirable to enable it to properly discharge its responsibilities under this Chapter III;
- (23) Undertaking such other matters as authorized by the Board of Directors.

Article 9 The Audit Committee shall also be responsible for such other matters as required under applicable laws and regulations, the self-regulatory rules of the stock exchange, the Articles of Association and the authorization of the Board of Directors. The Audit Committee shall be responsible for reviewing the Company's financial information and its disclosure, and supervising and evaluating its internal and external audit work and internal control. The following matters shall be submitted to the Board of Directors for consideration after being approved 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 undertaking the Company's audit;
- (3) Appointment or dismissal of the Chief Financial Officer of the Company;
- (4) Changes in accounting policies or accounting estimates, or corrections of material accounting errors, other than those resulting from changes in accounting standards;
- (5) Other matters as required by laws, administrative regulations, the China Securities Regulatory Commission, and the Articles of Association.

Article 10 The Audit Committee shall review the Company's financial and accounting reports and provide opinions on the truthfulness, accuracy and completeness of such reports. In particular, the Audit Committee shall focus on significant accounting and auditing matters in the financial and accounting reports, including whether there is any possibility of fraud, misconduct or material misstatement relating to the financial reporting, and shall supervise the rectification of any issues identified in the financial reporting.

Where issues such as financial fraud or material accounting errors are identified, the Audit Committee shall require the Company to correct the relevant financial data before adopting any resolution, and the Audit Committee shall not approve the relevant matters before such corrections are completed.

If any member of the Audit Committee is unable to ensure the truthfulness, accuracy or completeness of the financial information contained in the periodic reports, or has any objection, such member shall vote against or abstain when the Audit Committee reviews the periodic reports.

Article 11 The Audit Committee shall supervise the appointment of the external auditor and shall perform the following duties:

- (1) Formulating, pursuant to the authorization of the Board of Directors, the policies, procedures and related internal control systems for the selection and appointment of the external auditor;
- (2) Proposing the initiation of procedures for the selection and appointment of the external auditor;
- (3) Reviewing the selection documents, determining the evaluation criteria and specific scoring standards, and supervising the selection process;
- (4) Reviewing and determining the external auditor to be appointed, making recommendations on the audit fees, and submitting the same to the Board of Directors for approval;
- (5) Handling such other matters relating to the appointment or removal of the external auditor as required by applicable laws and regulations, the Articles of Association and the authorization of the Board of Directors.

When making recommendations to the Board of Directors on the appointment or replacement of the external auditor, and when reviewing the audit fees and terms of engagement of the external auditor, the Audit Committee shall not be subject to any improper influence from the Company's substantial shareholders, de facto controller, directors or senior management.

Article 12 The Audit Committee shall supervise and evaluate the audit work of the external auditor, and shall ensure that the external auditor acts with integrity, due diligence and professional competence, strictly complies with applicable professional standards and industry self-regulatory rules, properly implements internal control procedures, conducts verification and examination of the Company's financial and accounting reports, exercises professional skepticism and due care, and expresses professional opinions prudently.

The Audit Committee shall submit to the Board of Directors, on an annual basis, an assessment report on the performance of the external auditor and a report on the Audit Committee's supervision of the external auditor.

Article 13 The internal audit department shall be subject to the supervision and guidance of the Audit Committee when conducting supervision and inspection of the Company's business activities, risk management, internal control and financial information. The Audit Committee shall participate in the evaluation of the person in charge of the internal audit.

The Audit Committee shall supervise and evaluate the internal audit work and shall perform the following duties:

- (1) Guiding and supervising the establishment and implementation of the internal audit system;
- (2) Reviewing the Company's annual internal audit work plan;
- (3) Overseeing the implementation of the internal audit plan;
- (4) Guiding the effective operation of the internal audit department;
- (5) Reporting to the Board of Directors on the progress and quality of internal audit work and any major issues or findings identified;
- (6) Coordinating the relationship between the internal audit department and external auditors, national audit authorities and other external audit bodies.

The internal audit department shall report its work to the Audit Committee. All audit reports submitted by the internal audit department to management, together with the rectification plans and progress of rectification relating to audit findings, shall also be submitted to the Audit Committee. Where the internal audit department identifies any significant issues or clues, it shall report directly and promptly to the Audit Committee.

Article 14 The Audit Committee shall supervise and guide the internal audit department to conduct inspections of the following matters at least once every six months, and the internal audit department shall issue an inspection report and submit it to the Audit Committee. Where the inspection identifies circumstances involving violations of laws or regulations or non-compliant corporate operations, the relevant matters shall be reported to the regulatory authorities in a timely manner:

- (1) The implementation of major matters of the Company, including the use of proceeds from fund raising, provision of guarantees, related party transactions, securities investments and derivatives trading, provision of financial assistance, acquisitions or disposals of assets, and external investments;
- (2) The Company's significant capital transactions and capital transactions with directors, senior management, controlling shareholders, the de facto controller and their connected persons.

Where the Audit Committee, in the course of its routine duties, identifies indications of financial fraud, abnormal operating conditions, significant negative public opinion concerning the Company, material media allegations or credible complaints or reports, it may require the Company to conduct self-inspections, require the internal audit department to carry out investigations, and, where necessary, engage a third-party intermediary agency to assist with the investigation, with the costs to be borne by the Company.

Article 15 The Audit Committee shall supervise and guide the internal audit department in conducting internal control inspections and internal control evaluations, and shall urge the internal audit department to assess the risk conditions in key areas and critical aspects of the Company's internal control. The Audit Committee may periodically organize the analysis and evaluation of opinions and inspection results, and any internal control deficiencies identified during inspections shall be reflected in the internal control evaluation report.

Based on the internal audit reports and related materials submitted by the internal audit department, the Audit Committee shall issue a written assessment on the effectiveness of the Company's internal control and report the same to the Board of Directors.

Article 16 Where the Company has material deficiencies in internal control, or is identified as having issues such as financial fraud, misappropriation of funds or irregular guarantees, the Audit Committee shall urge the Company to undertake follow-up rectification and internal accountability measures. The Audit Committee shall supervise the Company in formulating rectification plans and corrective measures, completing the rectification within a prescribed time limit, and establishing, improving and strictly implementing an internal accountability system.

Article 17 In order to ensure the effective performance of its duties, the Audit Committee shall have the authority, in accordance with applicable laws and regulations, the self-regulatory rules of the stock exchange and the Articles of Association, to exercise the following powers:

- (1) Examining the Company's financial affairs;
- (2) Supervising the performance of duties by directors and senior management;
- (3) Where the conduct of directors or senior management damages the interests of the Company, requiring such directors or senior management to rectify such conduct;
- (4) Proposing the convening of an interim meeting of the Board of Directors;
- (5) Proposing the convening of an extraordinary general meeting, and to convene and preside over such meeting where the Board of Directors fails to perform its statutory duty to convene and preside over the shareholders' meeting;
- (6) Submitting proposals to the shareholders' meeting;
- (7) Accepting requests from shareholders and initiating legal proceedings against directors or senior management (other than members of the Audit Committee) who, in the course of performing their duties, violate laws, administrative regulations or the Articles of Association and thereby cause losses to the Company;
- (8) Such other powers as provided by laws and regulations, the self-regulatory rules of the stock exchange and the Articles of Association.

Article 18 The Audit Committee shall supervise the compliance by the directors and senior management with applicable laws and regulations, the relevant self-regulatory rules of the stock exchange and the Articles of Association, and their conduct in the performance of their duties, and may require the directors and senior management to submit reports on the performance of their duties.

Where the Audit Committee discovers that directors or senior management have violated applicable laws and regulations, the relevant self-regulatory rules of the stock exchange or the Articles of Association, it shall report the matter to the Board of Directors or to the shareholders' meeting, make timely disclosures, and may also report the matter directly to the relevant regulatory authorities.

In the course of performing its supervisory duties, where directors or senior management violate laws and regulations, the self-regulatory rules of the stock exchange, the Articles of Association or resolutions of the shareholders' meeting, the Audit Committee may propose their removal from office.

Article 19 Where the Audit Committee proposes to convene an extraordinary general meeting, such proposal shall be submitted in writing to the Board of Directors. The Board of Directors shall, in accordance with applicable laws and regulations and the Articles of Association, provide a written response indicating whether it agrees or disagrees with the proposal within ten days upon receipt of the proposal.

Article 20 Where the Board of Directors fails to perform its statutory duty to convene and preside over a shareholders' meeting, the Audit Committee may convene and preside over such meeting.

Where the Audit Committee decides to convene the shareholders' meeting on its own initiative, it shall notify the Board of Directors in writing and file the relevant information with the stock exchange. When issuing the notice of the shareholders' meeting and the announcement of the resolutions of the shareholders' meeting, the Audit Committee shall submit the relevant supporting documents to the stock exchange.

Article 21 Where directors or senior management other than members of the Audit Committee, in the course of performing their duties, violate laws, administrative regulations or the Articles of Association and thereby cause losses to the Company, the Audit Committee shall have the right to accept a written request from a shareholder holding or shareholders aggregately holding not less than one percent of the Company's shares for a continuous period of not less than 180 days to initiate legal proceedings with the People's Court. Where members of the Audit Committee violate laws, administrative regulations or the Articles of Association in the performance of their duties and thereby cause losses to the Company, the aforesaid shareholders may request in writing that the Board of Directors initiate legal proceedings with the People's Court.

Where the Audit Committee or the Board of Directors refuses to initiate legal proceedings after receiving such written request from shareholders, or fails to initiate legal proceedings within thirty days from the date of receipt of such request, or where the situation is urgent and failure to initiate proceedings immediately would cause irreparable harm to the interests of the Company, the shareholders referred to above shall have the right to initiate legal proceedings directly with the People's Court in their own name for the benefit of the Company.

CHAPTER IV WORKING PROCEDURES

Article 22 The Audit Department, established under the Audit Committee, shall be responsible for making preliminary preparations for the decision-making of the Audit Committee and for collecting and providing relevant information relating to audit matters, including:

- (1) The Company's relevant financial reports;
- (2) Work reports of internal and external audit institutions;
- (3) The engagement contracts with the external auditor and related work reports;
- (4) Information regarding the Company's external disclosures;
- (5) Audit reports on the Company's major related party transactions; and
- (6) Other relevant matters.

Article 23 The Audit Committee shall review the reports submitted by the Audit Department and submit relevant written resolutions or recommendations to the Board of Directors for consideration, including:

- (1) Evaluation of the performance of the external auditor, and matters relating to the appointment or replacement of the external auditor;
- (2) Whether the accounting policies adopted by the Company are appropriate and whether they comply with applicable laws, regulations and rules;
- (3) Whether the Company's internal audit system has been effectively implemented, and whether the Company's financial reports are complete and true;
- (4) Whether the financial reports and other information disclosed by the Company are objective and true, and whether the Company's major related party transactions and other significant matters comply with applicable laws, regulations and rules;
- (5) Evaluation of the work of the Company's finance department and audit department (including their respective heads);
- (6) Other relevant matters.

CHAPTER V RULES OF PROCEDURE

Article 24 The Audit Committee shall hold at least one meeting each quarter. An interim meeting may be convened upon the proposal of two or more members, or when the chairman considers it necessary. In any event, the Audit Committee shall meet with the external auditor at least once each year in the absence of executive directors and management of the Company.

Article 25 Meetings of the Audit Committee shall be convened and presided over by the chairman. Where the chairman is unable or fails to perform such duties, a member elected by more than half of the members shall convene and preside over the meeting.

Article 26 Notice of a meeting of the Audit Committee specifying the time, venue and matters to be considered shall be given to all members five days prior to the meeting.

In urgent circumstances where a meeting needs to be convened promptly, the above time requirement may be waived, and notice of the meeting together with relevant materials and information may be given at any time by telephone or other means, provided that the convener shall provide an explanation at the meeting.

Article 27 A meeting of the Audit Committee shall be validly convened only when no less than two-thirds of the members are present. Each member shall have one vote. Resolutions of the meeting shall be passed by more than half of all members of the Audit Committee.

Article 28 Members of the Audit Committee shall attend meetings in person and express clear opinions on the matters under consideration. Where a member is unable to attend the meeting in person for any reason, such member shall review the meeting materials in advance, form a clear opinion, and authorize another member in writing to attend and vote on his or her behalf, with such opinion recorded in the power of attorney.

Each member of the Audit Committee may accept no more than one authorization from another member. The power of attorney shall specify the scope and duration of the authorization. Where an independent director who is a member of the Audit Committee is unable to attend the meeting, he or she shall authorize another independent director who is also a member of the Audit Committee to attend the meeting on his or her behalf.

Article 29 Resolutions of the Audit Committee shall be made by show of hands, poll voting, or written communication. Meetings of the Audit Committee shall in principle be held in person. Provided that all participating members are able to fully communicate and express their views, meetings may, where necessary and in accordance with proper procedures, be held by video conference, telephone or other means, and participation in such manner shall be deemed as attendance in person at the relevant meeting.

Article 30 Where necessary, the Audit Committee may invite the Company's directors, senior management, representatives of the external auditor, internal auditors, financial personnel, legal advisers or other relevant personnel to attend meetings as non-voting participants and to provide necessary information.

Article 31 In performing its duties, the Audit Committee shall be supported by the relevant departments of the Company. Where necessary, the Audit Committee may engage independent professional intermediaries to provide professional advice for its decision-making, with the cost to be borne by the Company.

Article 32 Where a matter under discussion at a meeting of the Audit Committee involves a conflict of interest with a member of the Committee, such member shall abstain from participation. A meeting may be convened provided that more than half of the members without a conflict of interest are present, and any resolution shall be passed by more than half of the members without a conflict of interest. Where the number of members without a conflict of interest attending the meeting is less than half of the total number of members without such conflict, the matter shall be submitted to the Board of Directors for consideration.

Article 33 Minutes of meetings of the Audit Committee shall be prepared in accordance with relevant requirements and shall be true, accurate and complete, fully reflecting the opinions expressed by participants on the matters considered. Members of the Audit Committee attending the meeting shall sign the minutes of the meeting.

The minutes of meetings, resolutions, powers of attorney and other meeting materials shall be properly kept by the Company Secretary to the Board, and the retention period shall be not less than ten years.

Article 34 When the Company discloses its annual report, it shall also disclose the annual performance report of the Audit Committee of the Board of Directors, mainly including the performance of its duties, and the details of meetings of the Audit Committee.

Where the Audit Committee submits its review opinions on matters within its scope of duties to the Board of Directors and such opinions are not adopted by the Board of Directors, the Company shall disclose the relevant matter and provide a full explanation of the reasons.

Article 35 Unless required by statutory reasons or compulsory orders of competent authorities, members and other relevant personnel attending the meeting shall maintain confidentiality regarding the matters discussed at the meeting. Prior to the approval and public disclosure of such matters by the shareholders' meeting or the Board of Directors, no information relating to the meeting shall be disclosed to any person without authorization.

CHAPTER VI SUPPLEMENTARY PROVISIONS

Article 36 These Terms of Reference, upon approval by resolution of the Board of Directors, shall become effective and implemented from the date on which the Company's issuance of H Shares is filed with the China Securities Regulatory Commission and the H Shares are listed and commence trading on The Stock Exchange of Hong Kong Limited. Upon the effective date of these Terms of Reference, the Company's previous Terms of Reference of the Audit Committee of the Board of Directors shall automatically lapse.

Article 37 The terms "above" and "at least" as used in these Terms of Reference include the stated number.

Article 38 Unless otherwise expressly provided by applicable laws, administrative regulations or the securities regulatory rules of the place where the Company's shares are listed, the term "independent director" referred to in these Terms of Reference shall have the same meaning as "independent non-executive director" under the Listing Rules.

Article 39 Matters not covered in these Terms of Reference shall be governed by the relevant provisions of applicable national laws and regulations, normative documents, the securities regulatory rules of the place where the Company's shares are listed, and the Articles of Association. Where these Terms of Reference are inconsistent with any applicable laws, regulations, normative documents, the securities regulatory rules of the place where the Company's shares are listed, or the Articles of Association, the provisions of such laws, regulations, normative documents, securities regulatory rules and the Articles of Association shall prevail. Where these Terms of Reference conflict with any laws, regulations or normative documents promulgated by the State in the future, the securities regulatory rules of the place where the Company's shares are listed, or the Articles of Association as amended in accordance with lawful procedures, the relevant provisions of such laws, regulations, normative documents, securities regulatory rules and the Articles of Association shall prevail, and these Terms of Reference shall be amended accordingly without delay and submitted to the Board of Directors for consideration and approval.

Article 40 The Audit Committee shall make its terms of reference publicly available on the Company's website and the website of The Stock Exchange of Hong Kong Limited, explaining its role and the authority delegated to it by the Board of Directors.

Article 41 In the event of any discrepancy between the Chinese and English versions of these Terms of Reference, the Chinese version shall prevail.

Article 42 The right of interpretation of these Terms of Reference shall vest in the Board of Directors.

Red Avenue New Materials Group Co., Ltd.