

# ESTUN AUTOMATION CO., LTD

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

### (Applicable upon the Issuance and Listing of H Shares)

#### Chapter 1 General Provisions

**Article 1** In order to provide a basis for the decision-making of the board of directors (the “Board”) of ESTUN AUTOMATION CO., LTD (the “Company”), perform pre-audit and professional audit, ensure the Board’s effective supervision over the management, and improve the Company’s corporate governance structure, these Terms of Reference are formulated in accordance with the Company Law of the People’s Republic of China, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”), the Code of Corporate Governance for Listed Companies, the Articles of Association of ESTUN AUTOMATION CO., LTD (the “Articles of Association”), and other relevant regulations.

**Article 2** The Audit Committee of the Board is a specialized committee established under the Board, which is primarily responsible for reviewing the Company’s financial information and its disclosure, and supervising and evaluating the internal and external audit work and internal controls.

**Article 3** The Company does not have a supervisory committee or supervisors, and the Audit Committee shall exercise the functions and powers of the supervisory committee as prescribed under the Company Law.

The term “independent director” as used in these Terms of Reference shall have the same meaning as “independent non-executive director” under the Hong Kong Listing Rules.

#### Chapter 2 Composition

**Article 4** The Audit Committee shall consist of three directors. Members of the Audit Committee shall be directors who do not hold any senior management position in the Company, at least two of whom shall be independent directors. Among the members of the Audit Committee, at least one independent director shall be an accounting professional. Employee representatives who are members of the Board of the Company may serve as members of the Audit Committee.

**Article 5** The Audit Committee shall have one chairperson (convener), who shall be an independent director that is an accountant professional, elected by the Committee, and responsible for presiding over the work of the Committee.

An accounting professional shall possess extensive professional knowledge and experience in accounting and shall meet at least one of the following criteria:

- (i) holds a certified public accountant qualification;
- (ii) holds a senior professional title, an associate professorship or above, or a doctoral degree in accounting, auditing or financial management; or
- (iii) holds a senior professional title in economic management and has more than five years of full-time work experience in professional positions such as accounting, auditing or financial management positions.

**Article 6** Members of the Audit Committee shall be nominated by the chairman of the Board, a majority of the independent directors, or more than one-third of all directors, and shall be elected by the Board.

**Article 7** The term of office of the Audit Committee shall be the same as that of the Board. Upon expiry of the term, members may be re-elected for consecutive terms. Should any member cease to hold the position of director of the Company during the term of office, he or she shall automatically lose his or her qualification as a member, and the vacancy shall be filled in accordance with Articles 4 to 6 above.

**Article 8** Members of the Audit Committee shall be diligent and responsible, effectively supervise and evaluate the internal and external auditing work of the Company, promote the establishment of effective internal controls, and provide true, accurate and complete financial reports. Members of the Audit Committee shall possess the professional knowledge and experience necessary for performing the duties of the Audit Committee.

### **Chapter 3 Functions and Powers**

**Article 9** The functions and powers of the Audit Committee shall include the powers set out in the relevant code provisions of Appendix C1 Corporate Governance Code to the Hong Kong Listing Rules (as amended from time to time).

**Article 10** The main duties of the Audit Committee shall include:

- (i) to supervise and evaluate the external auditing work, and to propose the appointment or change of the external auditor;
- (ii) to supervise and evaluate the internal auditing work, and to be responsible for the coordination between internal and external audits;
- (iii) to review the Company's financial information and its disclosure;
- (iv) to supervise and evaluate the Company's internal control;
- (v) to exercise the functions and powers of the supervisory committee as prescribed under the Company Law; and

- (vi) to be responsible for other matters as required by laws and regulations, the provisions of the China Securities Regulatory Commission (the “CSRC”), the provisions of the Shenzhen Stock Exchange (the “SZSE”), the Articles of Association, and as authorized by the Board.

**Article 11** Pursuant to the Hong Kong Listing Rules, the main duties of the Audit Committee shall include the following:

(i) Relationship with the Company’s external auditor

1. To make recommendations to the Board on the appointment, removal or change of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and to handle any matters relating to its resignation or dismissal;
2. To review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
3. To develop and implement policy on engaging the 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, or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee shall report to the Board on any matters requiring action or improvement and provide corresponding recommendations.

(ii) Review of the Company’s financial information

To review and monitor the truthfulness, integrity and accuracy of the Company’s financial statements and the Company’s annual report and accounts, half-year report and quarterly report, and to review significant financial reporting judgements contained in them, with particular attention to the possibility of any fraud, irregularities or material misstatements relating to the financial statements and reports. In this regard, before submitting the relevant statements and reports to the Board, the Audit Committee shall particularly review:

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 qualifications;

5. compliance with accounting standards; and
6. compliance with other provisions of the securities regulatory rules and laws of the place(s) where the Company's shares are listed in relation to financial reporting.

Regarding item (ii) above, members of the Audit Committee shall liaise with the Board and the senior management of the Company, and the Audit Committee shall meet with the Company's external auditor at least twice a year. The Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and shall give due consideration to any matters raised by the Company's staff responsible for the accounting and financial reporting function, the compliance department, or the external auditor.

(iii) Oversight of the Company's financial reporting system, risk management and internal control systems

1. to review the Company's financial controls, internal control systems and risk management system;
2. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to establish effective systems, and such 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 as delegated by the Board or on its own initiative, and management's response to these findings;
4. to ensure co-ordination between the internal and external auditors; to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and to review and monitor the effectiveness of the internal audit function;
5. to review the Company's financial and accounting policies and practices;
6. to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts, risk management or systems of control, and management's response;
7. to ensure that the Board provides a timely response to the issues raised in the external auditor's management letter;
8. to report to the Board on the above matters and other matters set out in code provision D.3.3 of Appendix C1 to the Hong Kong Listing Rules (as amended from time to time);

- (iv) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and to act as the key representative body for overseeing the Company's relations with the external auditor.

**Article 12** Proposals in respect of the following matters shall be submitted to the Board for consideration only with the approval of more than half of all members of the Audit Committee:

- (i) disclosure of financial information in the financial and accounting reports and periodic reports, and the internal control assessment report;
- (ii) appointment or removal of the accounting firm undertaking the Company's audit work;
- (iii) appointment or removal of the person in charge of finance of the Company;
- (iv) change in accounting policies or accounting estimates or rectification of significant accounting errors for reasons other than a change in accounting standards; and
- (v) other matters stipulated under the laws, administrative regulations, the provisions of the CSRC and the SZSE, and the provisions of the Articles of Association.

**Article 13** The Audit Committee shall audit the truthfulness and accuracy of the Company's financial information, and shall immediately raise its opinions and report to the Board upon discovering any issues. The Audit Committee shall have the right to veto any false financial reports.

**Article 14** Unless otherwise specified in laws and regulations, the Audit Committee shall supervise the internal audit department to conduct a review of the following matters at least once every half year, prepare a review report and submit it to the Audit Committee. If any non-compliant or non-standard operation of the Company is identified in the review, the Audit Committee shall promptly report to the SZSE:

- (i) implementation of significant matters including the use of raised proceeds, provision of guarantees, connected transactions, securities investment and derivative transactions or other high-risk investments, provision of financial assistance, purchase or sale of assets, and external investment;
- (ii) large-value fund transactions of the Company and the fund transactions with the directors, senior management, controlling shareholder, de facto controller and their respective associates.

The Audit Committee shall issue a written assessment opinion on the effectiveness of the Company's internal control based on the internal audit report and relevant materials submitted by the internal audit department, and report to the Board. If the Board or the Audit Committee considers that there is any material deficiency or material risk in the Company's internal control, the Board shall promptly report to the SZSE and make disclosure. The Company shall disclose in an announcement any material deficiencies or material risks in its internal control, the consequences that have occurred or may occur, and the measures that have been or are intended to be taken.

**Article 15** The Audit Committee of the Board shall review the Company's financial and accounting reports and express its opinions on the truthfulness, accuracy and completeness of such reports. It shall focus on significant accounting and auditing issues in the Company's financial and accounting reports, with particular attention to any possibility of fraud, malpractice or material misstatement in relation to such reports, and supervise the rectification of issues identified in the financial and accounting reports.

The Audit Committee shall make recommendations to the Board on the appointment or change of the external auditor, and review the audit fees and terms of engagement of the external auditor, which shall not be subject to undue influence from the Company's substantial shareholders, de facto controllers, directors or senior management.

The Audit Committee shall urge the external auditor to act with honesty, integrity and diligence, strictly comply with business rules and industry self-disciplinary standards, strictly implement the internal control system, verify and validate the Company's financial and accounting reports, perform its duty of special care, and express professional opinions prudently.

**Article 16** If any director or senior management of the Company discovers that there are false records, misleading statements or material omissions in the financial and accounting reports issued by the Company and reports the same to the Audit Committee or the Board, or if the sponsor, independent financial adviser or external auditor points out to the Audit Committee or the Board that the Company's financial and accounting reports contain false records, misleading statements or material omissions, the Board shall promptly report to the SZSE and make disclosure.

Where the Company discloses relevant information in accordance with the preceding paragraph, it shall disclose in the announcement the material issues identified in the financial and accounting reports, the consequences that have occurred or may occur, and the measures that have been or are intended to be taken.

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

**Article 17** In the process of performing its supervisory duties, the Audit Committee may make recommendations for the removal of any director or senior management who has violated laws or regulations, the relevant provisions of the CSRC and the SZSE, the Articles of Association, or the resolutions of the general meeting.

**Article 18** The Company shall disclose the annual performance of duties by the Audit Committee in its annual report, mainly including the specific performance of its duties and the convening of Audit Committee meetings. Where the Audit Committee submits opinions to the Board for consideration on matters within its scope of duties, and the Board does not adopt such opinions, the Company shall disclose the relevant matters and fully explain the reasons therefor.

**Article 19** The Audit Committee shall disclose its terms of reference on the websites of The Stock Exchange of Hong Kong Limited and the Company, and explain its role and the authorities delegated to it by the Board.

## Chapter 4 Committee Meetings

**Article 20** The Audit Committee shall convene at least one meeting every quarter. Extraordinary meetings may be convened upon the proposal of two or more members or when the convener deems it necessary. Notice of the meeting shall be given to all members three days prior to the meeting. In urgent circumstances where an extraordinary meeting of the Audit Committee must be convened as soon as possible, such notice may be given at any time by telephone or orally, provided that the convener shall give an explanation at the meeting. The secretary to the Board shall be responsible for work related to the preparation of Audit Committee meetings and for coordinating relevant departments of the Company to provide necessary assistance to the Committee in carrying out its work.

**Article 21** The secretary to the Board shall, as requested by the Audit Committee, coordinate the relevant departments and units of the Company to provide written information on the relevant aspects of the Company, including but not limited to:

1. the Company's financial reports;
2. work reports of the internal and external auditors;
3. external audit contracts and related work reports;
4. the Company's public disclosure of information;
5. the Company's internal control work reports;
6. audit reports on the Company's material related party transactions; and
7. other related matters.

**Article 22** Meetings shall be presided over by the chairperson or another independent director who is a member of the Committee. The deliberation opinions of the meeting shall be submitted to the Board of the Company in writing.

**Article 23** Meetings of the Audit Committee shall be held with the attendance of more than two-thirds of its members. Each member shall have one vote. Resolutions of the meeting shall be passed by more than half of all members.

**Article 24** Voting at the meetings shall be conducted by a show of hands or by a recorded vote, and may also be conducted by means of communication.

**Article 25** When the Audit Committee meeting discusses matters relating to a member of the Committee, the person concerned shall recuse himself or herself from the discussion.

**Article 26** When the Audit Committee considers relevant plans, proposals and reports, in order to gain a detailed understanding of their key points and processes, it may invite directors, senior management or the persons in charge of relevant departments of the Company to attend the meeting to provide explanations or express opinions, so as to facilitate accurate decision-making. Non-member attendees shall not participate in the deliberations or affect the conduct of the meeting, voting or resolutions.

**Article 27** The Company shall provide the Audit Committee with the necessary working conditions and designate dedicated personnel or organizations to undertake the daily work of the Audit Committee, including liaison, meeting organization, preparation of materials, and document management. The management and relevant departments of the Company shall cooperate with the Audit Committee in the performance of its duties.

**Article 28** The Audit Committee may assign internal organizations of the Company to assist in its work or engage intermediaries or consultants to provide professional advice at the expense of the Company. The Audit Committee shall conduct experience and background checks on the engaged institutions or experts to ensure that they do not engage in any business competition with the Company or otherwise harm the interests of the Company. The Company shall enter into confidentiality undertakings with the institutions or experts participating in consultations. The convening procedures, voting methods, and resolutions of the Audit Committee meetings shall comply with relevant laws and regulations, the Articles of Association, and these Terms of Reference.

**Article 29** If any material issues identified by the Audit Committee in the course of performing its duties trigger the disclosure standards under the Code of Corporate Governance for Listed Companies or the Hong Kong Listing Rules, the Company shall promptly disclose such matters and the rectification thereof.

If the Audit Committee identifies any risks of the Company during its supervisory activities within the reporting period, the Company shall disclose the Audit Committee's brief opinions on such risks, the date and session of the Audit Committee meeting, the members who attended the meeting, and the reference index for the temporary report disclosure website. If no risks of the Company are identified, the Company shall disclose that the Audit Committee has no objections to the supervisory matters during the reporting period.

**Article 30** Minutes shall be prepared for meetings of the Audit Committee. Members attending the meeting shall sign the minutes, and the opinions of independent directors shall be recorded therein. The minutes shall be kept by the secretary to the Board of the Company for a period of not less than ten years.

**Article 31** The resolutions and voting results approved at meetings of the Audit Committee shall be submitted to the Board of the Company in writing.

**Article 32** Members attending the meeting shall be under an obligation of confidentiality in respect of the matters discussed at the meeting and shall not disclose any relevant information without authorization.

## Chapter 5 Supplementary Provisions

**Article 33** For the purposes of these Terms of Reference, the expressions “above” shall include the number mentioned, while “over” and “less than” shall exclude it.

**Article 34** These Terms of Reference shall be interpreted by the Board.

**Article 35** Any matters not covered in these Terms of Reference or, where the provisions hereof are inconsistent with the relevant provisions of the national laws, administrative regulations, securities regulatory rules of the place where the Company’s shares are listed, or the Articles of Association, such provisions of laws, administrative regulations, securities regulatory rules of the place where the Company’s shares are listed, and the Articles of Association shall prevail. In the event of any conflict between these Terms of Reference and any laws, regulations, rules, or securities regulatory rules of the place where the Company’s shares are listed that are promulgated thereafter, or the Articles of Association as amended through lawful procedures, such laws, regulations, rules, securities regulatory rules of the place where the Company’s shares are listed, and the Articles of Association shall prevail.

**Article 36** These Terms of Reference shall take effect and be implemented from the date on which the Company’s H shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited after filing with the China Securities Regulatory Commission, following consideration and approval by the Board. Upon the effectiveness of these Terms of Reference, the original Terms of Reference of the Audit Committee of the Board of Directors of the Company shall automatically cease to be effective.