

**TERMS OF REFERENCE FOR THE  
AUDIT COMMITTEE  
(APPLICABLE UPON THE ISSUANCE AND LISTING OF H SHARES)**

**Shenzhen Zhaowei Machinery & Electronics Co., Ltd.**

## CHAPTER I GENERAL PROVISIONS

**Article 1** In order to strengthen the decision-making function of the board (the “Board”) of directors (the “Director(s)”) of Shenzhen Zhaowei Machinery & Electronics Co., Ltd. (the “Company”), achieve proper pre-audit and professional audit, ensure effective supervision over the management by the Board and improve the corporate governance structure, the Company has established the audit committee (the “Audit Committee”) under the Board with these terms of reference (the “Terms of Reference”) in accordance with the Company Law of the People’s Republic of China (《中華人民共和國公司法》), the Code of Corporate Governance for Listed Companies (《上市公司治理準則》), the Measures for the Administration of Independent Directors of Listed Companies (《上市公司獨立董事管理辦法》), the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”), Appendix C1 to the Hong Kong Listing Rules (the “CG Code”), the Articles of Association of Shenzhen Zhaowei Machinery & Electronics Co., Ltd. (the “Articles of Association”) and other relevant provisions.

**Article 2** The Audit Committee is a specific working body established by the Board of the Company, which shall be primarily responsible for communicating with, supervising, and verifying internal and external audits of the Company, and exercising the functions and powers of the board of supervisors as prescribed by the Company Law of the People’s Republic of China, and reporting to the Board, and shall be accountable to the Board.

**Article 3** The Board office of the Company shall be responsible for the daily liaison and meeting organization of the Audit Committee. The internal audit department of the Company shall serve as the daily working body of the Audit Committee, and shall be responsible for all preparatory work before the decision-making of the Audit Committee.

## CHAPTER II COMPOSITION

**Article 4** The Audit Committee comprises 3 or more members who are Directors not holding senior management personnel positions of the Company, all of whom shall be non-executive Directors, and a majority of whom shall be independent Directors (unless otherwise specified by relevant laws, administrative regulations and securities regulatory rules of the place where the Company’s shares are listed, the “independent Director” herein shall include the meaning of “independent non-executive Director” under the Hong Kong Listing Rules; hereinafter the same meaning applies). At least one independent Director in the committee shall possess appropriate professional qualifications or accounting or relevant financial management expertise as required by the Hong Kong Listing Rules.

**Article 5** Members of the Audit Committee shall be nominated by the chairman of the Board, no less than half of independent Directors or one-third of all Directors, and shall be elected by the Board.

A partner of an external auditor which is responsible for auditing the accounts of the Company shall not serve as a member of the Audit Committee within two years from the date on which he/she ceases to be a partner of such external auditor, or the date on which he/she ceases to be entitled to the financial benefits in such external auditor (whichever is later).

**Article 6** The term of office of the Audit Committee shall be the same as that of the Board. A member may serve consecutive terms if re-elected upon expiry of his/her term.

**Article 7** During the term of office, where a member of the Audit Committee ceases to hold the position of a Director of the Company or is no longer suitable for the position of a member (for example, a member who should have the status of an independent Director no longer meets the independence requirements under the Hong Kong Listing Rules), such member shall automatically lose his/her qualification as a member. Where an independent Director's resignation would result in either the proportion of independent Directors in the Audit Committee failing to comply with the provisions herein, or the absence of an accounting professional among the independent Directors, the independent Director who intends to resign shall continue to perform his/her duties until a new independent Director is appointed. The Company shall complete the by-election within 60 days from the date on which the independent Director tenders his/her resignation.

**Article 8** A member of the Audit Committee may tender his/her resignation before the expiration of his/her term of office. The member shall tender a written resignation report to the Board, and the resignation report shall take effect only after being approved by the Board. Moreover, before a newly elected member takes office, the former member shall still perform the relevant duties in accordance with the provisions in these Terms of Reference. Where the number of the members of the Audit Committee decreases due to resignation, removal or other reasons, the Company's Board shall, in accordance with the provisions in these Terms of Reference, elect new members as soon as possible.

**Article 9** The Audit Committee shall have one convener (also referred to as the Chairperson of the Audit Committee), who shall be an independent Director with appropriate accounting or relevant financial management expertise; the Chairperson shall be elected among the members.

The Chairperson shall take charge of the work of the Audit Committee, convene and preside over the committee meetings. Where the Chairperson is unable or fails to perform his/her duties, he/she shall designate an independent Director member to act on his/her behalf; if the Chairperson neither performs his/her duties nor designates another member to act on his/her behalf, any member may report the matter to the Company's Board, and the Company's Chairman shall designate an independent Director member to act on behalf of such Chairperson.

## CHAPTER III DUTIES AND AUTHORITIES

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

- (I) to supervise and evaluate the external audit work
  1. to be primarily responsible for making recommendations to the Board on the appointment, reappointment and dismissal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and considering any issues concerning its resignation or dismissal;
  2. to review and monitor the external auditor based on applicable standards to see whether it is independent and objective, and whether its auditing procedures are effective;
  3. to formulate and implement policies regarding the engagement of the external auditor for non-audit services and reporting to the Board, as well as to identify matters requiring action or improvement, and making recommendations; and
  4. to consult with the external auditor prior to the commencement of audit work regarding the nature and scope of the audit and reporting obligations, and to ensure coordination where more than one audit firm is engaged.
  
- (II) to review the Company's financial information
  5. to monitor the integrity of the Company's financial statements, annual reports and accounts, semi-annual reports, and (if prepared for publication) quarterly reports, and to review significant financial reporting judgments contained therein. Before submitting such statements and reports to the Board, the Audit Committee should specifically review the following issues:
    - i. any changes in accounting policies and practices;
    - ii. any issue relating to major judgmental areas;
    - iii. any significant adjustments resulting from the audit;
    - iv. the going concern assumptions and any qualifications;
    - v. the status of compliance with accounting standards; and
    - vi. the status of compliance with the Listing Rules and other legal requirements in relation to financial reporting;

6. for the purpose of item 5 above:
  - i. shall liaise with the Board and senior management;
  - ii. shall meet, at least twice a year, with the Company's external auditor; and
  - iii. shall consider any significant or unusual matters that are, or may need to be, reflected in the reports and accounts and shall give due consideration to any matter that has been raised by the Company's employee responsible for the accounting and financial reporting function, the compliance officer (if any) or the external auditor;
- (III) to oversee the Company's financial reporting system, risk management and internal control systems
  7. to review the Company's financial control systems and unless expressly addressed by a separate risk committee under the Board, or by the Board itself, to review the Company's risk management and internal control systems;
  8. to discuss the risk management and internal control systems with the management to ensure that the management has performed his/her duties to have effective systems in place. This discussion should include the adequacy of resources, employee qualifications and experience of the Company's accounting and financial reporting function, training programs for employees and budget;
  9. to consider major investigation findings on risk management and internal control matters, and the management's response to these findings on its own initiative or as delegated by the Board;
  10. to ensure that the work of internal and external auditors is coordinated; 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;
  11. to review the Company's financial and accounting policies and practices;
  12. to review the external auditor's audit letter to the management, any material queries raised by the external auditor to the management on accounting records, financial accounts or control systems and the management's response;
  13. to ensure that the Board responds in a timely manner to the issues raised in the external auditor's audit letter to the management;
  14. to report to the Board on the matters contained in these Terms of Reference;
  15. to review the arrangements by which employees of the Company may raise concerns, in confidence, about possible misconduct in financial reporting, internal control or other matters, and to ensure that proper arrangements are put in place for impartial and independent investigation on these matters and for appropriate follow-up action;

16. to act as the main representative between the Company and the external auditor, and to be responsible for monitoring the relationship between the two parties;
  17. to develop a whistleblowing policy and system to enable employees and other persons who deal with the Company (e.g. customers and suppliers) to raise their concerns about any possible improprieties about the Company to the Audit Committee, both covertly and anonymously; and
  18. to research other topics as defined by the Board.
- (IV) other duties stipulated by the Hong Kong Listing Rules or other laws, regulations and rules.

**Article 11** The Audit Committee shall be responsible for reviewing the financial information of the Company and its disclosure, supervising and evaluating internal and external audit work and internal control. The following matters shall be submitted to the Board for consideration only with the approval of a majority of all members of the Audit Committee:

- (I) disclosure of financial information in financial accounting reports and periodic reports, and internal control evaluation reports;
- (II) appointment or dismissal of accounting firm undertaking the Company's audit;
- (III) appointment or dismissal of chief financial officer of the Company;
- (IV) changes in accounting policies, accounting estimates or corrections of material accounting errors occurring for reasons other than changes in accounting standards;
- (V) other matters stipulated by laws, administrative regulations, securities regulatory rules of the places where the Company's shares are listed, as well as the Articles of Association.

**Article 12** The Audit Committee shall direct and supervise the work of the internal audit department. In directing and supervising the work of the internal audit department, the Audit Committee shall fulfil the following main duties:

- (I) to direct and supervise the establishment and implementation of the internal audit system;
- (II) to review the Company's annual internal audit work plan;
- (III) to supervise the implementation of the Company's internal audit plan;

- (IV) to direct the effective operation of the internal audit department; the internal audit department of the Company shall report to the Audit Committee, and all types of audit reports, plans for the rectification of audit issues and the status of rectification submitted by the internal audit department to the management shall be submitted to the Audit Committee at the same time;
- (V) to report to the Board on the progress and quality of internal audit work, as well as significant issues identified;
- (VI) to coordinate the relationship between the internal audit department and external auditors such as the accounting firms and the national audit institutions.

**Article 13** The Audit Committee shall review the financial accounting reports of the Company, comment on the truthfulness, accuracy and completeness of the financial accounting reports, focus on significant accounting and auditing issues in the Company's financial accounting reports, pay particular attention to the possibility of fraud, malpractice and material misstatement in relation to the financial accounting reports, and oversee the rectification of the issues in the financial accounting reports.

The Audit Committee makes recommendations to the Board on the engagement or replacement of the external auditor, reviews the external auditor's audit fees and engagement contracts, and shall not be improperly influenced by substantial shareholders, de facto controllers, or Directors and senior management members of the Company.

The Audit Committee shall urge the external auditor to be honest, trustworthy and diligent, strictly comply with the business rules and industry self-discipline, strictly implement the internal control systems, verify and validate the Company's financial accounting reports, fulfil the obligation of special care and prudently express professional opinions.

**Article 14** The Audit Committee shall supervise and instruct the internal audit department to conduct inspections on the following matters at least once every six months, issue inspection reports and submit them to the Audit Committee. In the event that the Company is found violating the law and regulations or having irregular operation, the Audit Committee shall promptly report to the stock exchange and urge the Company to disclose the same to the public:

- (I) the implementation of major events such as the use of the Company's proceeds, provision of guarantees, related-party transactions, high-risk investments such as securities investments and derivatives transactions, provision of financial assistance, purchase or sale of assets, and external investments;
- (II) the Company's large amount of financial transactions and financial transactions with Directors, senior management members, controlling shareholders, de facto controllers and their related parties. The Audit Committee shall issue a written assessment opinion on the effectiveness of the Company's internal controls based on the internal audit reports and related information submitted by the internal audit department and report it to the Board.

**Article 15** The Audit Committee shall issue an annual internal control evaluation report based on the evaluation report and relevant documents issued by the internal audit department. The internal control self-evaluation report shall include at least the following:

- (I) a statement by the Board on the authenticity of the internal control report;
- (II) an overview of the internal control evaluation work;
- (III) the basis, scope, procedures and methods of the internal control evaluation;
- (IV) the internal control deficiencies and their identification;
- (V) the rectification of internal control deficiencies for the previous year;
- (VI) the proposed rectification measures for internal control deficiencies for this year;
- (VII) a conclusion on the effectiveness of internal controls.

**Article 16** The Audit Committee shall be accountable to the Board. The Audit Committee's proposals shall be submitted to the Board for review and decision-making.

**Article 17** The Board of the Company shall respect all recommendations made by the Audit Committee on the appointment or change of external auditor and shall not suspend the consideration of or refuse the vote on the relevant recommendations without sufficient grounds or solid evidence.

**Article 18** The Company shall provide the Audit Committee with the means and measures necessary to perform their duties, and engage professionals or agencies to handle daily operation including liaison, organization of meetings, preparation of materials and documentation for the Audit Committee. When the Audit Committee is performing its duties, the management and relevant departments of the Company shall cooperate with it.

**Article 19** The Audit Committee may appoint intermediary agencies to provide professional opinions on its decision-making as it deems necessary at the cost of the Company.

## CHAPTER IV DECISION-MAKING PROCEDURES

**Article 20** The internal audit department is responsible for organizing and coordinating relevant departments or intermediary agencies to prepare the documents of the meetings of the Audit Committee, and ensuring the authenticity, accuracy and completeness of such documents. The meeting documents include, but are not limited to:

- (I) relevant financial reports of the Company;
- (II) work reports of internal and external auditors;
- (III) external audit contracts and related work reports;
- (IV) disclosure of information by the Company to the public;
- (V) audit reports on material related-party transactions of the Company;
- (VI) other relevant information.

**Article 21** The internal audit department shall perform the internal approval procedures for the meeting documents in accordance with the Company's internal management system and submit the documents to the Board office.

**Article 22** The Board office shall submit the meeting documents to the Chairperson of the Audit Committee for review. The meetings of the Audit Committee shall be convened in a timely manner upon consideration and approval.

**Article 23** The Audit Committee shall convene meetings to adopt reports, resolutions or make recommendations, and submit these in writing to the Board of the Company. For matters requiring consideration and approval by the Board or the shareholders' meeting, the Audit Committee shall submit proposals to the Board and follow the consideration and approval procedures stipulated in relevant laws, regulations and the Articles of Association.

**Article 24** Where more than half of the Board members raise objections to reports or resolutions adopted at meetings of the Audit Committee, they may submit written feedback to the Audit Committee in a timely manner.

## CHAPTER V RULES OF PROCEDURE

**Article 25** The Audit Committee meetings shall be classified as regular meetings and extraordinary meetings. The Audit Committee shall convene a meeting at least every quarter. Extraordinary meetings may be held upon the proposal of two or more members, or when the convener deems necessary. A meeting of the Audit Committee requires the attendance of two-thirds or more of its members to constitute a quorum.

**Article 26** In principle, the meetings of the Audit Committee shall be held on-site, however, under the premise of ensuring full communication among and expression of opinions by all participating members of the committee, the meetings may be held by way of video, telephone or other means in accordance with the procedures if necessary.

**Article 27** Where the Audit Committee convenes a meeting, the Company shall in principle provide relevant materials and information no later than three days prior to such meeting. In urgent circumstances requiring the prompt convening of an extraordinary meeting, the requirements regarding notification means and time limits set forth in the preceding paragraph shall not be applied, provided that the convener shall make an explanation at such meeting.

**Article 28** Members of the Audit Committee shall proactively participate in and attend the committee meetings in person. Where a member is unable to attend in person due to exceptional circumstances, he/she must review meeting materials in advance, formulate explicit opinions, and provide written authorization to another independent Director to act as proxy. When performing his/her duties, an independent Director identifies matters of significance falling within the Audit Committee's duty, he/she may, in accordance with relevant procedure, timely propose such matters for discussion and consideration by the Audit Committee.

**Article 29** The Audit Committee may, if considered necessary, invite other persons in connection with the proposals to attend the meeting to provide detailed information or express their opinions. Those who are not members of the Audit Committee, however, do not have voting rights on the proposals.

**Article 30** Matters proposed at the meeting of the Audit Committee are subject to collective consideration and voting on a case-by-case basis, which means that all the proposals are considered by all members present and then are put to be voted one by one according to the order of consideration.

**Article 31** When voting on relevant matters at the meetings of the Audit Committee, the members who are interested in the matters to be considered shall abstain from such voting.

**Article 32** Each member shall be entitled to one vote when voting at the meetings of the Audit Committee. Resolutions made by the Audit Committee shall not be valid unless passed by more than half of all members voting thereon.

**Article 33** Voting at the meetings of the Audit Committee may be conducted by open ballot, a show of hands, communications or other means.

**Article 34** Proposals and voting results adopted at the meetings of the Audit Committee shall be reported to the Board of the Company in writing.

**Article 35** The meeting of the Audit Committee shall be recorded as required, and the minutes of the meeting shall be true, accurate and complete, and shall fully reflect the opinions of the attendees on the matters under consideration. The opinions of the independent Directors shall be stated in the minutes of the meeting. The Directors, secretary of the Board and recorder attending the meeting shall sign the minutes of the meeting for confirmation, which shall be kept by the secretary to the Audit Committee duly appointed (generally company secretary or his/her duly appointed delegate). The draft and final versions of minutes should be sent to all members of the committee within a reasonable time after the meetings. The draft versions of minutes are for their comments and the final versions of minutes are for their records. The Directors of the Company may inspect the minutes at a reasonable time upon reasonable notice.

**Article 36** The meeting records of the Audit Committee, including notices, meeting materials, attendance rolls, written forms of proxy for member attendance, ballot papers, minutes signed by attending members and resolutions, shall be maintained by the Board office. The meeting records of the Audit Committee shall be kept for ten years. The company secretary shall serve as the secretary to the Audit Committee. The Audit Committee may appoint any other person with suitable qualifications and experience to act as its secretary from time to time.

**Article 37** Before the resolutions at the meeting of the Audit Committee are announced by the Company in accordance with the legal procedure, the attending members, other attendants, and recorder and service personnel shall fulfill confidentiality obligation to the contents of resolutions.

**Article 38** The procedures for convening meetings of the Audit Committee, the method of voting and resolutions approved at the meetings shall comply with the provisions of relevant laws, regulations, securities regulatory rules of the place where the Company's shares are listed, the Articles of Association and these Terms of Reference. Resolutions subject to the approval of the Board shall be submitted to the Board office for processing after the meeting.

## CHAPTER VI INFORMATION DISCLOSURE

**Article 39** The Company shall disclose the annual performance of the Audit Committee in its annual reports, mainly including the convening of meetings of the Audit Committee and the specific information on the performance of duties.

The Audit Committee shall give its opinions to the Board of the Company in respect of matters within its scope of duties. If the Board fails to adopt the matter, the Company shall disclose the matter and give sufficient reasons.

**Article 40** Where Directors or senior management members of the Company identify false records, misleading statements or material omissions in the Company's financial accounting reports and report such findings to the Board, or where sponsors, independent financial advisors or external auditors notify the Board of such defects in the Company's financial accounting reports, the Board shall report to the Shenzhen Stock Exchange and make public disclosure in a timely manner.

Where the Company makes disclosure pursuant to the preceding paragraph, it shall announce the material issues identified in the financial accounting reports, disclose consequences that have arisen or may arise therefrom, and specify measures implemented or to be implemented.

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

## CHAPTER VII SUPPLEMENTARY PROVISIONS

**Article 41** Any matters not covered herein shall be subject to the relevant national laws, administrative regulations, departmental rules, securities regulatory rules of the place where the Company's shares are listed and the Articles of Association.

In the event that these Terms of Reference contravene any national laws, regulations, securities regulatory rules of the place where the Company's shares are listed or the Articles of Association, the latter shall prevail.

**Article 42** In these Terms of Reference, the term "related relationship" shall include the meaning of "connected relationship" under the Hong Kong Listing Rules; the term "related party transaction" shall include the meaning of "connected transaction" under the Hong Kong Listing Rules; the term "related party" shall include the meaning of "connected person" under the Hong Kong Listing Rules; and the term "independent Director" shall include the meaning of "independent non-executive Director" under the Hong Kong Listing Rules.

**Article 43** These Terms of Reference shall be subject to the amendment and interpretation of the Board of the Company.

**Article 44** These Terms of Reference, after consideration and approval by the Board of the Company, shall come into effect from the date on which H Shares of the Company are listed on The Stock Exchange of Hong Kong Limited.

Shenzhen Zhaowei Machinery & Electronics Co., Ltd.  
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