

RUIYUAN 瑞 远

Zhejiang RuiYuan Intelligent Control Technology Company Limited*

浙江瑞遠智控科技股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8249)

(Adopted on 1 June 2003 and updated on 15 March 2017)

Audit Committee

Terms of Reference

1. The audit committee (“**Audit Committee**”) of Zhejiang RuiYuan Intelligent Control Technology Company Limited (the “**Company**”) shall be appointed by the board of directors of the Company (the “**Board**”) from amongst the independent non-executive directors and should consist of not less than three members.
2. One of the members of the Audit Committee should have appropriate professional qualifications or accounting or related financial management expertise as required under the relevant requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
3. A former partner of the Company’s auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one year from the date of his ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is later.
4. The chairman of the Audit Committee shall be appointed by the Board.
5. The composition of the Audit Committee shall comply with the requirements of the Listing Rules as amended from time to time.

Quorum

6. The quorum for meetings of the Audit Committee shall be two-thirds (including two-thirds) above the members attend.
7. Meetings of the Audit Committee could be held in person, by telephone or by video conference. The members may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.

* *For identification purposes only*

Secretary

8. The company secretary of the Company (the “**Company Secretary**”) shall be the secretary of the Audit Committee. In the absence of the Company Secretary in any meeting of the Audit Committee, a member of the Audit Committee or such other person it may appoint should act as the secretary of the meeting of the Audit Committee.

Attendance

9. The chief financial officer, the head of internal audit and a representative of the external auditors shall normally attend meetings of the Audit Committee. Other members of the Board may also attend meetings of the Audit Committee, but only members of the Audit Committee are entitled to vote at the meetings of the Audit Committee.

Frequency and Proceedings of Meetings

10. The Audit Committee shall meet at least four times a year.
11. The Audit Committee shall meet twice a year with the external auditors without any executive directors being present to discuss matters relating to audit fees, any issues arising from the audit and any other matters the external auditors may wish to raise. The external auditors may request a meeting should they consider necessary.
12. Arrangement should be in place to ensure that all Audit Committee members are given an opportunity to include matters in the agenda for regular meeting.
13. Notice of at least 14 days together with an agenda should be given for regular Audit Committee meeting to give all Audit Committee members an opportunity to attend. For all other meetings, reasonable notice should be given.
14. All Audit Committee members and attendees should be provided with an agenda and accompanying papers in full in a timely manner and at least 3 days before the intended date of meeting to enable them to make informed decisions.
15. All Audit Committee members should have access to the advice and services of the Company Secretary with a view to ensuring that the terms of reference of the Audit Committee and applicable law, rules and regulations are followed.
16. Audit Committee papers and minutes should be open for inspection at any reasonable time on reasonable notice by any Director.

Written Resolutions

17. Written resolutions may be passed by all members of the Audit Committee in writing. It shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.

Authorities and Duties

18. The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is also authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.
19. The Audit Committee is authorised by the Board to inspect all accounts, books and records of the Company.
20. The Audit Committee is authorised by the Board to seek outside legal or other independent professional advice at the Company's expenses in appropriate circumstances. If the Audit Committee considers necessary, it may also secure the attendance of any person with relevant experience and expertise at any meeting. The Audit Committee should be provided with sufficient resources to perform its duties.
21. The Audit Committee should establish a whistleblowing policy and system for employees and those (e.g. customers and suppliers) who deal with the Company and its subsidiaries (the "**Group**") to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Group.
22. The duties of the Audit Committee are:
 - (1) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any questions of its resignation or dismissal. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Audit Committee will arrange for the corporate governance report set out in the Company's annual report ("**Corporate Governance Report**") to include an explanation of the Audit Committee's view and the reasons why the Board has taken a different view;
 - (2) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences. The Audit Committee should ensure co-ordination between auditing firms should more than one auditing firm be involved;
 - (3) to develop and implement policy on engaging external auditors 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 should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
 - (4) to act as the key representative body for overseeing the Company's relations with the external auditors;

- (5) to monitor integrity of the Company's financial statements and the annual report and accounts, interim report and quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:
- any changes in accounting policies and practices;
 - major judgmental areas;
 - significant adjustments resulting from audit;
 - the going concern assumptions and any qualifications;
 - compliance with accounting standards;
 - compliance with the listing rules and other legal requirements in relation to financial reporting;
 - the fairness and reasonableness of any connected transaction(s) or continuing connected transaction(s) and the impact of such transaction(s) on the profitability and benefit of the Group and to the interest of the shareholders of the Company;
 - whether all relevant items have been adequately disclosed in the Group's financial statements and whether such disclosures give a true and fair view of the Group's financial conditions;
 - the cashflow position of the Group; and
 - providing advices and comments thereon to the Board.
- (6) if designated by the Board, to discuss, determine and approve annual budget, long term plan and implementation plan of the Group.

In performing its duties set out in this paragraph, the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in report and accounts, it should 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. In addition, the Audit Committee members should liaise with the Board and senior management.

- (7) to oversee the Company's financial reporting system and risk management and internal control systems:
- to review the Company's financial controls and risk management and internal control systems and report to the Board its findings for the Board's review;

- to discuss the risk management and internal control systems with management to ensure that the management has performed its duty to have an effective systems. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- to consider major investigations 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; and
- where an internal audit function exists, to review the internal audit plan and ensure co-ordination between the internal and external auditors.

The Audit Committee shall also ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness.

The Audit Committee shall review the internal audit report and report to the Board and make recommendations:

- to review the Group's financial and accounting policies and practices;
 - to review the external auditors' management letter, any material queries raised by the auditors to the management about accounting records, financial accounts or systems of control and management's response;
 - to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter; and
 - to ensure and to review that there are proper 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 should ensure that proper arrangements 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 relation with the external auditors.
- (8) to report regularly to the Board on the matters set out in these terms of reference, including its decisions and recommendations;
 - (9) to report to the Board on matters set out in the code provision C.3.3 of the Corporate Governance Code and Corporate Governance Report in Appendix 15 of the Listing Rules;
 - (10) to comment on reports prepared by the management and, if deemed necessary, present the major findings to the Board from time to time;
 - (11) to consider other topics as defined by the Board;

Risk management and internal controls

- (12) on behalf of the Board, to evaluate and determine the nature and extent of the risks the Board is willing to take in achieving the Company's strategic objectives and to ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems;
- (13) on behalf of the Board, to oversee management in the design, implementation and monitoring of the risk management and internal control systems and to seek management's confirmation on the effectiveness of the systems;
- (14) on behalf of the Board, to oversee the Company's risk management and internal control systems on an ongoing basis, to ensure that a review of the effectiveness of the risk management and internal control systems of the Group has been conducted at least annually and report to shareholders that it has done so in the Corporate Governance Report of the Company. The review should cover all material controls, including financial, operational and compliance controls. The annual review should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions;
- (15) the annual review should, in particular, consider:
 - the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
 - the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
 - the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Company and the effectiveness of risk management;
 - significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
 - the effectiveness of the Company's process for financial reporting and Listing Rule compliance.
- (16) to disclose, in the Corporate Governance Report, a narrative statement on how the Company has complied with the risk management and internal control code provisions during the reporting period. In particular, the Company should disclose:
 - the process used to identify, evaluate and manage significant risks;
 - the main features of the risk management and internal control systems;

- an acknowledgement by the Board that it is responsible for the risk management and internal control systems and reviewing their effectiveness. It should also explain that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss;
 - the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and
 - the procedures and internal controls for the handling and dissemination of inside information.
- (17) where the Company is without an internal audit function, to review the need for one on an annual basis and disclose the reasons for the absence of such a function in the Corporate Governance Report;
- (18) 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 should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and

Reporting Responsibility

- (19) to report back to the Board on its major activities, findings, decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

Minutes of Meetings

23. Minutes of meetings of the Audit Committee shall be kept by the secretary of the meeting (the company secretary). Draft and final versions of the minutes shall be sent to all members of the Audit Committee for their comment and record within a reasonable time after the meeting.

Performance Review

24. The Audit Committee shall review its performance annually with reference to the authorities and duties set out herein and submit to the Board for review and approve.

Others

25. The terms of reference of the Audit Committee shall be posted both on the Company's website and the website of the Hong Kong Stock Exchange.

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