



BAOGAI

Shandong Baogai New Materials Technology Co., Ltd.

山東寶蓋新材料科技股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8090)

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

Chapter 1 General Provisions

- Article 1 In order to strengthen the decision-making functions of the board of directors, conduct post-audit and professional audit, ensure effective supervision of management by the board of directors and improve the corporate governance structure of Shandong Baogai New Materials Technology Co., Ltd. (the “**Company**”), these terms of reference are formulated in accordance with the Company Law of the People’s Republic of China (the “**Company Law**”), the Measures for the Supervision and Administration of Non-listed Public Companies (the “**Non-listed Public Companies Measures**”), the Governance Rules for Companies Listed on the National Equities Exchange and Quotations (the “**NEEQ Governance Rules**”), the Articles of Association of Shandong Baogai New Materials Technology Co., Ltd. (the “**Articles of Association**”), the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and other relevant laws and regulations, and in light of the actual circumstances of the Company.
- Article 2 The Audit Committee and its members shall conscientiously perform their duties in accordance with the laws and regulations, the GEM Listing Rules, other securities regulatory requirements of the place where the shares of the Company are listed, the Articles of Association and these terms of reference.

Chapter 2 Composition

- Article 3 The Audit Committee shall be accountable to the board of directors. All members shall be non-executive directors and shall consist of not less than three members, a majority of whom must be independent non-executive directors.

A former partner of the Company’s existing external audit firm shall be prohibited from acting as a member of the Audit Committee for a period of two years from the date of ceasing to be a partner of such firm or from the date of ceasing to have any financial interest in such firm, whichever is later.

Article 4 Members of the Audit Committee (the “**Members**”) shall be nominated by the chairman of the board of directors, or by more than one-third of all directors, or by more than one-half of the independent non-executive directors, and shall be elected by a majority of the board of directors. Upon approval of the resolution for election, a newly appointed Member shall assume office immediately after the conclusion of the board meeting.

Article 5 The Audit Committee shall have one convener (being the chairman of the committee), who shall be an independent non-executive director and shall possess the appropriate professional qualifications required under the relevant regulatory rules of the securities regulatory authorities and stock exchange of the place where the shares of the Company are listed, or have appropriate accounting or related financial management expertise.

The chairman of the Audit Committee shall be elected or removed by the Audit Committee and reported to the board of directors for approval.

Article 6 The term of office of the Members shall be the same as that of the current board of directors. Members may be re-elected upon expiry of their term.

Where a Member ceases to be a director of the Company during his/her term, or where a Member who is required to be an independent non-executive director no longer satisfies the independence requirements under the Company Law, the Articles of Association, the Administrative Measures for Independent Directors of Listed Companies, the GEM Listing Rules or other securities regulatory rules of the place where the shares of the Company are listed, such Member shall automatically lose his/her qualification as a Member.

Chapter 3 Duties of the Audit Committee

Article 7 The principal duties of the Audit Committee are as follows:

- (I) to propose the appointment or replacement of external audit institutions, and to supervise and evaluate the work of external audit institutions;
- (II) to guide and supervise internal audit work and its implementation;
- (III) to coordinate the communication among the management, internal audit department (including departments responsible for risk management), relevant departments and external audit institutions;
- (IV) to review the financial information of the Company and its disclosure, review the Company’s financial reports and provide opinions thereon (including their completeness, accuracy and fairness);

- (V) to examine the Company's accounting policies, financial position, financial reporting procedures and financial controls;
- (VI) to focus on major accounting and auditing issues in the Company's financial reports, including adjustments for significant accounting errors, changes in significant accounting policies and estimates, matters involving significant accounting judgments, and matters resulting in non-standard unqualified audit opinions;
- (VII) to supervise the rectification of financial reporting issues;
- (VIII) to review the Company's financial monitoring, financial policies, risk management and internal control systems and supervise and evaluate their effectiveness, including:
 - (1) discussing with the management and evaluating the effectiveness of financial control, internal control and risk management systems to ensure that the management has performed its duties to establish effective financial control, internal control and risk management systems; such discussion shall include adequacy of resources, staff qualifications and experience in its accounting and financial reporting functions, and whether the training programmes and budget for relevant staff are adequate;
 - (2) ensuring coordination between the departments responsible for risk management and the external audit institutions, and ensuring that the departments responsible for risk management have adequate resources to operate within the Company and have appropriate authority and status, and reviewing and monitoring their effectiveness;
 - (3) reviewing the management letter issued by the external audit institution and any material queries raised by the auditor to the management in respect of accounting records, financial accounts or control systems, and the management's response thereto;
 - (4) ensuring that the board of directors responds promptly to matters raised in the management letter issued by the external auditor;
- (IX) to confirm the list of connected persons of the Company and to review major connected transactions and significant investment activities such as acquisitions and mergers;
- (X) to ensure coordination between the work of the Company's internal audit and external audit institutions, and to ensure that the internal audit function has adequate resources and appropriate status within the Company, and to review and monitor its effectiveness;

- (XI) to supervise potential improprieties of employees in relation to financial reporting, internal control or other matters;
- (XII) to study, on its own initiative or as delegated by the board of directors, major investigation findings relating to risk management and internal control matters, the management's response thereto and the measures adopted;
- (XIII) to perform other duties as prescribed under Rules D.3.3, D.3.7 and other relevant provisions of Appendix C1 (Corporate Governance Code) to the GEM Listing Rules (as amended, supplemented or otherwise modified from time to time);
- (XIV) other powers delegated by the board of directors;
- (XV) to report to the board of directors on any of the above matters and to consider other matters arranged by the board of directors;
- (XVI) to report to the board of directors on matters relating to the provisions of Appendix C1 (Corporate Governance Code) to the GEM Listing Rules.

Members of the Audit Committee shall meet with the external audit institution at least twice a year without the presence of executive directors (except those invited by the Audit Committee).

Article 8 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:

- (I) financial accounting reports to be disclosed and financial information in periodic reports, and internal control evaluation reports;
- (II) the appointment or removal of the accounting firm undertaking the Company's audit business;
- (III) the appointment or removal of the Company's chief financial officer;
- (IV) changes in accounting policies or accounting estimates or correction of major accounting errors for reasons other than changes in accounting standards;
- (V) other matters as stipulated by laws, administrative regulations, the GEM Listing Rules, other securities regulatory rules of the place where the shares of the Company are listed and the Articles of Association.

Article 9 The Audit Committee shall be responsible for the selection and appointment of the accounting firm and shall supervise and evaluate its audit work. The Audit Committee shall perform the following duties:

- (I) to formulate policies, procedures and relevant internal control systems for the selection and appointment of the accounting firm in accordance with the authorization of the board of directors;
- (II) to propose the initiation of the selection or replacement of the accounting firm;
- (III) to review the selection documents, determine evaluation factors and specific scoring criteria, and supervise the selection process;
- (IV) to propose the accounting firm to be appointed, its engagement terms and audit fees;
- (V) to evaluate the independence, objectivity and professionalism of the accounting firm as the external audit institution, particularly the impact of non-audit services provided by the external audit institution on its independence;
- (VI) to supervise and evaluate the audit work of the accounting firm;
- (VII) to submit to the board of directors on a regular basis (at least annually) an evaluation report on the performance of the appointed accounting firm and a report on the performance of supervisory duties by the Audit Committee;
- (VIII) to handle other matters relating to the selection and appointment of accounting firms as required by laws, administrative regulations, the GEM Listing Rules, other securities regulatory rules of the place where the shares of the Company are listed, the Articles of Association and the authorization of the board of directors.

Article 10 Where necessary, the Audit Committee may engage intermediary institutions to provide professional advice for its decision-making, and the reasonable expenses incurred thereby shall be borne by the Company.

Article 11 The Audit Committee shall be accountable to the board of directors. Matters within the scope of the duties of the Audit Committee shall first be considered and approved by the Audit Committee and then submitted to the board of directors for consideration. The Audit Committee shall cooperate with the supervisory board in audit supervisory activities.

Article 12 The chairman of the Audit Committee shall perform the following duties:

1. to convene and preside over regular meetings of the Audit Committee;
2. to convene extraordinary meetings of the Audit Committee under special circumstances;
3. to supervise and inspect the implementation of resolutions of the Audit Committee;
4. other duties conferred by the board of directors and the Audit Committee.

Article 13 Where the chairman of the Audit Committee is unable to perform his/her duties for any reason, he/she shall designate another Member to perform his/her duties on his/her behalf.

Chapter 4 Rules of Procedures of the Audit Committee

Article 14 Meetings of the Audit Committee are divided into regular meetings and extraordinary meetings. Regular meetings shall be held at least once every quarter. Extraordinary meetings shall be convened as necessary and shall be held under any of the following circumstances:

1. when deemed necessary by the board of directors;
2. when deemed necessary by the chairman of the committee;
3. when proposed by two or more Members.

Article 15 Notice of meeting and meeting materials shall be delivered to all Members at least three days prior to the meeting. The notice shall include the form, time, venue, duration, agenda, time of issuance of the notice and relevant materials. Notice may be given by hand delivery, mail, email or facsimile. In urgent circumstances where a meeting needs to be convened as soon as possible, notice may be given at any time by telephone or other oral means, provided that the chairman shall make an explanation at the meeting.

Article 16 Upon receipt of the notice of meeting, Members shall promptly confirm and provide feedback by appropriate means (including but not limited to attendance and travel arrangements).

Article 17 Members shall attend meetings in person. Where a Member is unable to attend in person for any reason, he/she may appoint another Member in writing to attend on his/her behalf. A Member who fails to attend and does not appoint a representative shall be deemed to have waived his/her voting rights at that meeting.

- Article 18 Meetings of the Audit Committee shall be presided over by the chairman of the Audit Committee. Where the chairman is unable to preside over or fails to perform his/her duties, he/she may designate another independent non-executive director Member to preside, or a majority of the Members present may elect an independent non-executive director Member to preside.
- Article 19 Meetings of the Audit Committee shall only be held when more than two-thirds of the Members are present. Each Member shall have one vote. Resolutions of the meeting must be approved by more than half of all Members.
- Article 20 Voting at meetings of the Audit Committee shall be conducted by way of poll. Provided that Members can fully express their opinions, they can vote by communications and make resolutions and signed by participating Members.
- Article 21 Meetings of the Audit Committee may be held by on-site meetings, telephone meetings, video conferences, circulation of documents, facsimile, email or other appropriate means.
- Article 22 The secretary to the board of directors shall attend meetings of the Audit Committee. Where necessary, other directors, supervisors, senior management members or members of the audit working group may be invited to attend meetings, but non-Members shall not have voting rights on meeting resolutions.
- Article 23 Where necessary, the Audit Committee may engage intermediary institutions to provide professional advice for its decision-making, and the expenses shall be borne by the Company.
- Article 24 Where a Member has a direct or indirect interest in a matter discussed at a meeting, such Member shall abstain from voting.
- Article 25 The convening procedures, voting methods and resolutions of meetings of the Audit Committee shall comply with relevant laws, administrative regulations, departmental rules, normative documents, the GEM Listing Rules, other securities regulatory rules of the place where the shares of the Company are listed, the Articles of Association and these terms of reference.
- Article 26 Minutes shall be kept for meetings of the Audit Committee. Members present at the meeting and the recorder shall sign the minutes. The minutes shall be filed and kept by the secretary to the board of directors for a period of not less than ten years.
- Article 27 Resolutions passed at meetings of the Audit Committee and the voting results shall be reported to the board of directors in writing.
- Article 28 Members attending the meeting and persons present at the meeting shall keep confidential the matters discussed at the meeting and shall not disclose relevant information without authorization.

Chapter 5 Supplementary Provisions

Article 29 Any matters not covered herein shall be handled in accordance with relevant laws, administrative regulations, departmental rules, normative documents, the GEM Listing Rules, other securities regulatory requirements of the place where the shares of the Company are listed and the Articles of Association, in light of the actual circumstances of the Company. In case of any conflict between these terms of reference and any laws, administrative regulations, departmental rules, normative documents, the GEM Listing Rules, other securities regulatory rules of the place where the shares of the Company are listed, or the Articles of Association as amended from time to time, the latter shall prevail.

Article 30 Unless otherwise specified, the terms “above”, “within” and “below” shall include the number itself; the terms “less than”, “beyond”, “lower than”, “more than” and “exceeding” shall exclude the number itself.

Article 31 These terms of reference shall be interpreted by the board of directors.

Article 32 These terms of reference shall be considered and approved by the general meeting of the Company and shall come into effect from the date of the Company’s overseas initial public offering of shares (H shares) and listing on GEM of The Stock Exchange of Hong Kong Limited.