

# **ZHEJIANG SANHUA INTELLIGENT CONTROLS CO., LTD.**

## **TERMS OF REFERENCE OF THE REMUNERATION AND EVALUATION COMMITTEE OF THE BOARD OF DIRECTORS**

**(A Remuneration and Evaluation Committee of the Board of Directors)**

**Chapter 1 General Principles**

**Article 1** To further establish a sound appraisal and remuneration management system and improve the corporate governance structure of Zhejiang Sanhua Intelligent Controls Co., Ltd. (hereinafter referred to as the “Company”), the Company has established a remuneration and evaluation committee of the board of directors and formulated these terms of reference in accordance with the Company Law of the People’s Republic of China (hereinafter referred to as the “Company Law”), the Securities Law of the People’s Republic of China, the Code of Governance for Listed Companies, the Administrative Measures for Independent Directors of Listed Companies, the Self-Regulatory Guidelines for Listed Companies on the Shenzhen Stock Exchange No. 1 – Standardized Operation of Listed Companies on the Main Board, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Hong Kong Listing Rules”) and the relevant provisions of Articles of Association of Zhejiang Sanhua Intelligent Controls Co., Ltd. (hereinafter referred to as the “Articles of Association”).

**Article 2** The Remuneration and Evaluation Committee is a special working body established by the board of directors, which is mainly responsible for developing appraisal criteria and conducting assessments for the directors and senior management of the Company, and formulating and reviewing remuneration policies and plans for directors and senior management of the Company. The committee is accountable to the board of directors.

**Article 3** Directors for appraisal and remuneration management purposes refer to the directors of the Company (excluding independent non-executive directors) who receive remuneration, while senior management refers to the chief executive officer, general manager, chief engineer, secretary to the board of directors, chief financial officer (or finance director) appointed by the board of directors, and other senior management nominated by the chief executive officer and approved by the board of directors.

## **Chapter 2 Composition and Election**

**Article 4** The Remuneration and Evaluation Committee shall be comprised of at least three directors, of which more than half shall be independent non-executive directors.

**Article 5** The members of the Remuneration and Evaluation Committee shall be nominated by the chairman of the board, more than half of the independent non-executive directors or one-third of all directors, and shall be elected by the board of directors.

**Article 6** The Remuneration and Evaluation Committee shall have a chairman (convener), who shall be an independent non-executive director responsible for presiding over the work of the committee. The chairman (convener) shall be elected from among the members and shall be submitted to the board of directors for approval.

**Article 7** The term of office of the Remuneration and Evaluation Committee is the same as that of the board of directors, and members may be re-elected upon expiration of their terms of office. If a member ceases to serve as a director of the Company during the term, he/she shall cease to be a committee member automatically, and the vacancy in the committee shall

4. to review and approve the compensation arrangements related to the dismissal or removal of directors due to their misconduct to ensure that such arrangements are consistent with the terms of the contract. If it cannot be consistent with the terms of the contract, the compensation must also be reasonable and appropriate;
5. to ensure that no directors or any of his/her associate is involved in the determination of his/her own remuneration;

(IV) to manage the share incentive scheme of the Company;

(V) to be responsible for other matters as stipulated by laws and regulations, the Articles of Association, securities regulatory rules of the place where the shares of the Company are listed, these rules of procedure and as authorized by the board of directors.

**A. 10** The Remuneration and Evaluation Committee of the board of directors of the Company shall make recommendations to the board of directors on the following matters:

- (I) remuneration of executive directors, senior management (which shall include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment) as well as the remuneration of non-executive directors;
- (II) formulation or amendment of share incentive schemes (including the relevant share schemes as referred to in Chapter 17 of the Hong Kong Listing Rules), employee stock ownership plans, granting of rights and benefits to incentive recipients and fulfillment of the conditions for the exercise of rights and benefits;
- (III) directors and senior management's arrangement of shareholding plans in subsidiaries that are to be spun off;
- (IV) other matters required by laws, administrative regulations, securities regulatory rules of the place where the shares of the Company are listed, these rules of procedure and the Articles of Association.

If the board of directors does not adopt the recommendations of the Remuneration and Evaluation Committee in full or in part, it shall record the opinions of the Remuneration and Evaluation Committee and the specific reasons for not adopting them in the board resolutions for disclosure.

**A. 11** The board of directors has the power to veto remuneration plans or programs that are detrimental to the interests of shareholders.

**A. 12** The remuneration plan for directors of the Company proposed by the Remuneration and Evaluation Committee shall be submitted to the board of directors for approval and submitted to the shareholders' general meeting for consideration and approval before implementation. The remuneration distribution plan for senior management of the Company shall be submitted to the board of directors for approval.

## **Chapter 4 – Directors and Senior Management**

**Article 13** The human resources department is in charge of the preliminary preparation for the decision-making of the Remuneration and Evaluation Committee and provides the following materials of the Company:

- (I) information on the fulfillment of the main financial indicators and operation objectives of the Company;
- (II) information on the division of work of the Company's senior management and their main duties;
- (III) information on the fulfillment of indicators involved in the work performance assessment system of directors and senior management;
- (IV) information on the operational performance of directors and senior management in terms of the capability in business innovation and profit-making;
- (V) the basis for relevant measurement and calculation adopted in the proposed formulation of remuneration distribution plans and distribution methods of the Company according to the performance of the Company.

**Article 14** The procedures for appraising directors and senior management adopted by the Remuneration and Evaluation Committee include:

- (I) the directors and senior management of the Company shall report their work and make self-assessments to the Remuneration and Evaluation Committee under the board of directors;
- (II) the Remuneration and Evaluation Committee shall carry out performance assessments of the directors and senior management according to the performance assessment standards and procedures;
- (III) the Remuneration and Evaluation Committee shall propose the remuneration amount and form of reward for the board of directors and senior management according to the performance appraisal results and remuneration distribution policy, and shall report the same to the board of directors after they are passed by voting.

## **Chapter 5 – Meetings of the Remuneration and Evaluation Committee**

**Article 15** All members shall be notified five days before the meeting of the Remuneration and Evaluation Committee. The meeting shall be presided over by the chairman (convener), who may entrust another member (independent non-executive director) to preside over the meeting if he/she is unable to attend.

**Article 16** The meeting of the Remuneration and Evaluation Committee shall be held only when more than two-thirds of the members are present; each member shall have one vote; resolutions made at the meeting must be passed by a majority of all members.

**A. 17** Members may vote at the meeting of the Remuneration and Evaluation Committee by the show of hands or by poll, which shall be convened on-site as a matter of principle. Under the premise of ensuring that all participating directors are able to fully communicate and express their opinions, meetings may, when necessary, be convened via video, telephone or other means in accordance with the procedures.

**A. 18** The directors, supervisors and senior management of the Company may be invited to attend the meeting of the Remuneration and Evaluation Committee when necessary.

**A. 19** Where necessary, the Remuneration and Evaluation Committee may engage intermediaries to provide professional advice for its decisions, and the cost shall be borne by the Company.

**A. 20** When the meeting of the Remuneration and Evaluation Committee discusses a topic related to the committee members, the interested members shall abstain from the discussion.

**A. 21** The convening procedures, voting methods and remuneration policies and distribution plans passed at the meeting of the Remuneration and Evaluation Committee must comply with requirements under relevant laws, regulations, securities regulatory rules of the place where the shares of the Company are listed, the Articles of Association and these terms of reference.

**A. 22** The meeting of the Remuneration and Evaluation Committee shall be recorded, and the members attending the meeting shall sign the minutes of the meeting, which shall be kept by the secretary to the board of directors of the Company. The draft minutes and the finalized minutes shall be sent to all members of the committee within a reasonable time after the meeting. The draft shall be circulated to the members for comments with the finalized minutes serving as the record. The directors of the Company may inspect the minutes of the meeting at a reasonable time upon reasonable notice.

**A. 23** The proposals and poll results passed at the meeting of the Remuneration and Evaluation Committee shall be reported in writing to the board of directors of the Company.

**A. 24** discussion.

**Article 25** These terms of reference shall be implemented from the date of listing of H shares issued by the Company on the Stock Exchange of Hong Kong Limited following the passing of the resolution of the board of directors.

**Article 26** The matters not covered herein shall be implemented in accordance with the relevant national laws and regulations, the securities regulatory rules of the place where the shares of the Company are listed and the Articles of Association. In case of any conflicts between these terms of reference and any laws and regulations promulgated by the state, the securities regulatory rules of the place where the shares of the Company are listed or the Articles of Association as amended under lawful procedures, the relevant laws and regulations promulgated by the state, the securities regulatory rules of the place where the shares of the Company are listed and the Articles of Association shall prevail.

**Article 27** The board of directors of the Company shall be responsible for the interpretation and revision of these terms of reference.

The board of directors of Zhejiang Sanhua Intelligent Controls Co., Ltd.