

ZHEJIANG SANHUA INTELLIGENT CONTROLS CO., LTD.

TERMS OF REFERENCE FOR THE REMUNERATION AND EVALUATION COMMITTEE OF THE BOARD OF DIRECTORS

Chapter I 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.

Chapter II Composition of the Committee

Article 3 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 4 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 5 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 6 The term of office of the members of the Remuneration and Evaluation Committee is the same as that of the directors 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 be filled in accordance with the provisions of Article 3 to 5 above.

Article 7 The Remuneration and Evaluation Committee shall set a non-recurring working group, which shall specifically be responsible for providing the operation information of the Company and the relevant information of persons to be appraised. The working group shall also be responsible for the preparation of meetings of and the implementation of relevant resolutions of the Remuneration and Evaluation Committee.

Chapter III Duties and Authority

Article 8 The primary duties of the Remuneration and Evaluation Committee of the board of directors of the Company are as follows:

- (I) to discuss the criteria for the appraisal of directors and senior management and make recommendations after the appraisal;
- (II) to discuss and review the remuneration policies and plans for the directors and senior management, and make recommendations to the board of directors on the establishment of a formal and transparent procedure for developing remuneration policy;
- (III) to supervise and review the implementation of the remuneration system of the Company, including:
 - 1. to review and approve the management's remuneration proposals in light of the corporate policies and objectives set by the board of directors;
 - 2. to consider the remuneration paid by comparable companies, the time commitment and duties required and the terms of employment for other positions within the Group;
 - 3. to review and approve the compensation to be paid to the executive directors and senior management for the loss or termination of their positions or appointments to ensure that such compensation is consistent with the terms of the contract. If it cannot be consistent with the terms of the contract, the compensation must also be fair and reasonable, not excessive;
 - 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.

Article 9 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.

Article 10 The board of directors has the power to veto remuneration plans or programs that are detrimental to the interests of shareholders.

Article 11 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 IV Decision-making Procedure

Article 12 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 13 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 V Remuneration and Evaluation Committee

Article 14 All members shall be notified three days before the meeting of the Remuneration and Evaluation Committee. However, in case of urgent circumstances requiring a prompt meeting, and with the unanimous consent of all members, the above notice period requirement may be waived, provided that each member can fully express his/her views. 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 15 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.

Article 16 Members may vote at the meeting of the Remuneration and Evaluation Committee by the show of hands or by poll, which may be convened in the form of on-site meeting or correspondence voting.

Article 17 The directors and senior management of the Company may be invited to attend the meeting of the Remuneration and Evaluation Committee when necessary.

Article 18 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.

Article 19 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.

Article 20 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.

Article 21 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 directors of the Company may inspect the minutes of the meeting at a reasonable time upon reasonable notice.

Article 22 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.

Article 23 Members attending the meeting shall be obliged to keep confidentiality regarding the matters discussed at the meeting, and shall not disclose relevant information without authorization.

Chapter VI Section 6 The Terms of Reference

Article 24 These terms of reference shall be implemented from the date of approval by the board of directors, and any amendments shall be subject to the same procedure.

Article 25 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 national laws and regulations, the securities regulatory rules of the place where the shares of the Company are listed and the Articles of Association shall prevail.

Article 26 The board of directors of the Company shall be responsible for the interpretation and revision of these terms of reference.

Zhejiang Sanhua Intelligent Controls Co., Ltd.
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