



LONGCHEER

Shanghai Longcheer Technology Co., Ltd.

上海龍旗科技股份有限公司

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

(Stock Code: 9611)

The Implementation Rules of the Audit Committee of the Board

Chapter I General Provisions

- Article 1** To strengthen the decision-making function of the Board of Shanghai Longcheer Technology Co., Ltd. (the “Company”), achieve audit in advance and professional audit, ensure effective supervision over the management by the Board, and further improve the Company’s corporate governance structure, the Company hereby established the Audit Committee of the Board and formulated these Rules, in accordance with relevant provisions under the Company Law of the PRC (the “Company Law”), the Code of Corporate Governance for Listed Companies, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Self-Regulatory Guidelines for Listed Companies on the Shanghai Stock Exchange No.1 – Standardized Operation, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”) and other laws, administrative regulations and normative documents, the securities regulatory rules of the place where the Company’s shares are listed, and the Articles of Association of Shanghai Longcheer Technology Co., Ltd. (the “Articles of Association”) and in the light of the Company’s actual situation.
- Article 2** The Audit Committee is a special working body established by the Board, which is mainly responsible for supervising and verifying the Company’s internal and external audits and internal control systems. The Committee is accountable to the Board, reports its work to the Board, and exercises the functions and powers of the Board of Supervisors as stipulated by the Company Law and the securities regulatory rules of the place where the Company’s shares are listed.
- Article 3** Members of the Audit Committee shall ensure that they have sufficient time and energy to perform the duties of the Committee, be diligent and responsible, practically, effectively and efficiently supervise the external audit of the Company and guide the internal audit of the Company. They shall also promote the establishment of effective internal control of the Company and provide true, accurate and complete financial reports.
- Article 4** The Company shall provide the Audit Committee with necessary working conditions and assign special personnel or departments to handle the daily operation of the Audit Committee, including liaison, organization of meetings, preparation of materials and documentation. The management and relevant departments of the Company shall cooperate with the Audit Committee in the performance of its duties.

Chapter II Composition

- Article 5** The Audit Committee shall be comprised of at least three non-executive directors, all of whom shall be non-executive directors, and the majority of whom shall be independent directors. At least one independent director among the members shall possess appropriate accounting or related financial management expertise as required by the securities regulatory rules of the place where the Company's shares are listed.
- Members of the Audit Committee shall, in principle, be independent of the daily operations and management affairs of the Company. All members of the Audit Committee are required to have specialized knowledge and business experience that enables them to perform the duties of the Audit Committee.
- Article 6** The members of the Audit Committee shall be nominated by the chairman of the Board, more than one-half of the independent directors or one-third of all directors, and shall be elected by the Board.
- Article 7** The Audit Committee shall have one chairperson (convener), who shall be an independent director responsible for presiding over the work of the Committee. The chairperson shall be an accounting professional, and shall be elected from among the members and be submitted to the Board for approval.
- Article 8** The term of office of the Audit Committee is the same as that of the Board, 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 member automatically, and the vacancy in the Committee shall be filled in accordance with the provisions of Articles 5 to 7 above by the Committee.
- Article 9** The Company shall establish an internal audit department under the Audit Committee. The internal audit department is the Company's internal audit department, and shall conduct internal audit work under the guidance and supervision of the Audit Committee. The internal audit department is accountable to the Audit Committee and reports its work to the Audit Committee. The internal audit department shall maintain independence, and shall not be placed under the leadership of the finance department or co-located with the finance department.
- Article 10** The Company is responsible for organizing relevant training for the members of the Audit Committee to enable them to acquire professional knowledge in law, accounting and regulatory norms for listed companies in a timely manner as required for the performance of their duties.
- Article 11** The Board shall regularly evaluate the independence and performance of the members of the Audit Committee, and replace those members who are unsuitable to continue serving when necessary.

Chapter III Duties and Authorities

Article 12 The Company does not appoint supervisors or establish the Board of Supervisors, and the functions and powers of the Board of Supervisors as stipulated by the Company Law shall be exercised by the Audit Committee. The Audit Committee shall exercise the following functions and powers:

- (i) to examine the Company's financial conditions;
- (ii) to supervise the performance of duties by the directors and senior management and proposing the removal of directors and senior management who have violated laws, administrative regulations, the Articles of Association or the resolutions of general meetings;
- (iii) to require rectifications by directors and senior management if such director or senior management has conducted acts that are detrimental to the public interests;
- (iv) to propose the convening of extraordinary general meetings and to convene and preside over general meetings when the Board fails to fulfil its duties of convening and presiding over general meetings stipulated by the Articles of Association;
- (v) to submit proposals to the general meetings;
- (vi) to initiate legal proceedings against directors or senior management pursuant to laws, administrative regulations, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association;
- (vii) other functions and powers required by the Articles of Association.

Article 13 The Audit Committee mainly performs the following duties and authorities:

- (i) relationship with the external audit firm of the Company:
 - 1. to make recommendations to the Board on the appointment, re-appointment, or replacement of the external audit firm, make recommendations to the Board on remuneration and terms of engagement of the external audit firm, and handle any issues related to resignation or dismissal of such audit firm;
 - 2. to review and monitor the independence and objectivity of the external audit firm and the effectiveness of audit procedures in accordance with the applicable standards. The Committee shall discuss with the audit firm the nature and scope of the audit as well as the related reporting responsibilities before the audit commences; and

3. to formulate and implement policies on the provision of non-audit services by the external audit firm. For this provision, the “external audit firm” includes any entity under the same control, ownership, or management as the audit firm responsible for auditing, or any entity reasonably perceived as part of the local or international operations of the audit firm by a third party with reasonable knowledge of all relevant information. The Audit Committee shall report to the Board and make recommendations regarding actions or improvements it deems necessary;
- (ii) to review the financial information of the Company and express opinions thereon:

To supervise the completeness of the Company’s financial statements and annual reports and accounts, interim reports and quarterly reports (if issued), and review material opinions on financial reporting as contained in financial statements and reports. Before submitting such statements and reports to the Board, the Audit Committee shall particularly review the following matters:

1. any changes in accounting policies and practices;
2. matters requiring significant judgments;
3. major adjustments arising from the audit;
4. the going concern assumption and any qualified opinions;
5. compliance with accounting standards; and
6. compliance with the securities regulatory rules and laws in relation to financial reporting of the place where the Company’s shares are listed.

In connection with item (ii) above, the members of the Audit Committee shall communicate with the Board and the senior management of the Company, including the internal audit department. The Audit Committee shall meet with the external audit firm of the Company at least twice annually. The Audit Committee shall consider any major or unusual items that are reflected or may need to be reflected in such reports and accounts, and shall pay due attention to issues raised by the Company’s accounting and financial reporting staff, the compliance department, or the external audit firm.

- (iii) to oversee and evaluate the Company's financial reporting system, risk management and internal control systems, and assess the effectiveness of internal control (see Article 14);
- (iv) organize and conduct various special audit work;
- (v) to report to the Board on matters covered by these Rules;
- (vi) to review the Company's arrangements for enabling employees to raise their concerns confidentially about possible improprieties in financial reporting, internal control, or other matters. The Audit Committee shall ensure appropriate arrangements are in place for the Company to conduct fair and independent investigations into such matters and take appropriate actions;
- (vii) to serve as the main representative between the Company and the external audit firm and oversee the relationship between them; and
- (viii) other duties as required by laws, administrative regulations, regulatory authorities, the securities regulatory rules of the place where the Company's shares are listed, the Articles of Association and as delegated by the Board of the Company.

Article 14

The duties of the Audit Committee in guiding internal audit work and overseeing the Company's financial reporting system, risk management, and internal control system shall include at least the following aspects:

- (i) to guide, supervise, and evaluate internal audit work, the establishment and its implementation of the Company's internal audit system;
- (ii) to review the Company's financial control, as well as its risk management and internal control systems;
- (iii) to discuss risk management and internal control systems with management to ensure management has fulfilled its responsibilities in establishing effective systems. The discussion shall include whether the issuer has adequate resources, staff qualifications and experience for its accounting and financial reporting functions, and whether the training programs and related budgets for staff are sufficient;
- (iv) to study significant findings related to risk management and internal control matters, as well as management's responses to such findings proactively or upon the Board's request;

- (v) to review the Company's annual internal audit work plan;
- (vi) to oversee the implementation of the Company's internal audit plan, review and monitor its effectiveness; ensure coordination between the internal and external audit firms; and ensure the internal audit function has adequate resources and appropriate standing within the Company;
- (vii) to guide the effective operation of the internal audit department. The internal audit department of the Company shall report its work to the Audit Committee. All audit reports submitted by the internal audit department to the management, along with rectification plans and progress on audit issues, shall be submitted to the Audit Committee at the same time;
- (viii) to report to the Board on the progress, quality, and significant issues identified in internal audit work;
- (ix) to review the Group's financial and accounting policies and practices;
- (x) to review the Audit Explanation Letter provided by the external audit firm to the management, any significant concerns raised by the auditors regarding accounting records, financial accounts or control systems, and the management's responses thereto; and
- (xi) to ensure the Board responds in a timely manner to matters raised in the Audit Explanation Letter provided by the external audit firm to the management.

Article 15

The Audit Committee shall be responsible for reviewing the Company's financial information and its disclosure, supervising and evaluating internal and external audit work and internal control. The following matters shall be submitted to the Board of the Company for consideration upon the consent of more than one-half of all members of the Audit Committee:

- (i) to disclose financial information in the financial accounting report and periodic reports, and the internal control evaluation report;
- (ii) to appoint or dismiss the accounting firm that undertakes audit services for the Company;
- (iii) to appoint or dismiss the chief financial officer of the Company;
- (iv) to make changes in accounting policies and estimates or correcting significant accounting errors for reasons other than changes in accounting standards; and
- (v) other matters required by laws, regulations, relevant rules of the China Securities Regulatory Commission or the Shanghai Stock Exchange, and the Articles of Association.

Article 16 The appointment or replacement of the external audit firm by the Company shall be subject to the Audit Committee forming its audit opinion and making recommendations to the Board for consideration of the relevant proposal.

The Audit Committee shall review the Company's financial accounting reports, advise on the truthfulness, accuracy and completeness of the financial accounting reports, focus on significant accounting and auditing issues in the financial accounting reports of the Company, pay particular attention to whether there is any possibility of fraud, fraudulent acts and material misstatement in relation to the financial accounting reports, and supervise the rectification of the issues in the financial accounting reports.

The Audit Committee shall urge the external audit firm to act honestly, diligently and responsibly, strictly comply with the operating rules and self-regulatory rules of the industry, strictly implement the internal control systems, verify and validate the Company's financial accounting reports, fulfil the duty of special care and prudently provide professional advice.

Article 17 Unless otherwise stipulated by laws and regulations, the Audit Committee of the Board shall supervise and guide the internal audit department in conducting inspections on the following matters at least once every six months, issuing inspection reports and submitting them to the Audit Committee. Any violation of laws and regulations or operating irregularities of the Company identified during the inspections shall be promptly reported to the Shanghai Stock Exchange:

- (i) the implementation of major matters such as the use of proceeds raised by the Company, provision of guarantees, connected transactions, securities investment and derivative transactions, provision of financial assistance, purchase or sale of assets, and external investments; and
- (ii) large capital flows of the Company and the financial transactions with directors, senior management, controlling shareholders, actual controllers and their connected persons.

The Audit Committee shall issue a written assessment on the effectiveness of the Company's internal control based on the internal audit report and relevant materials submitted by the internal audit department, and report to the Board.

Article 18 Where necessary, the Audit Committee may engage intermediaries to provide professional advice, and the cost shall be borne by the Company.

Article 19 The Audit Committee shall be provided with sufficient resources to perform its duties.

Chapter IV Rules of Procedure

Article 20 The internal audit department is in charge of the preliminary preparation for the meetings of the Committee and provides the following written information of the Company:

- (i) relevant financial reports of the Company;
- (ii) work reports of internal and external audit firms;
- (iii) external audit contracts and relevant work reports;
- (iv) disclosure of information to the public by the Company;
- (v) audit reports on major connected transactions of the Company;
- (vi) other relevant matters.

Article 21 The reports submitted by the internal audit department shall be considered at the meeting of the Audit Committee, and the relevant written resolutions or reports formulated after voting shall be submitted to the Board for consideration and approval:

- (i) evaluation on the performance of, and engagement and replacement of, the external audit firms;
- (ii) whether the Company's internal audit systems have been implemented effectively and whether the Company's financial reports are complete and true;
- (iii) whether information disclosed to the public by the Company, including financial reports, is objective and true, and whether the Company's major connected transactions are in compliance with relevant laws and regulations;
- (iv) evaluation on the performance of the internal financial department and audit department of the Company, including their persons-in-charge;
- (v) other relevant matters.

- Article 22** The Audit Committee shall be convened and presided over by the chairperson. If the chairperson is unable or refuses to perform his/her duties, he/she shall delegate an independent director member to perform the duties on his/her behalf.
- Article 23** The Audit Committee shall convene at least one meeting each quarter.
- The Audit Committee shall convene extraordinary meetings as required. When more than two members of the Audit Committee make a proposal, or when the chairperson considers it necessary, an extraordinary meeting may be convened.
- When convening a regular meeting, all members shall be notified via telephone, fax, mail, email or other means at least five days prior to the meeting. When convening an extraordinary meeting, all members shall be notified via telephone, fax, mail, email or other means at least one day prior to the meeting. In case of an emergency requiring an urgent meeting, members may issue meeting notices via telephone, fax, email or other means at any time, but the chairperson shall provide an explanation at the meeting.
- Article 24** The meeting of the Audit Committee shall be held only when more than two-thirds of the members are present. Meetings shall be convened on-site in principle. When necessary, provided that the members can fully express their opinions, and with the consent of the convener, the meeting may also be convened through telecommunications.
- Each member shall have one vote; resolutions made at the meeting must be passed by a majority of all members. In the event that no valid opinions can be formed through consideration due to the abstention of a member, the related matter shall be considered directly by the Board.
- Article 25** Members may vote at the meeting of the Audit Committee by a show of hands or by poll. When it is convened through telecommunications, members shall deliver their written opinions and voting intentions on the matters reviewed to the Board office via fax, scan or other means after signing for confirmation.
- Article 26** Members of the Audit Committee shall attend the meetings in person and clearly deliver their opinions on matters reviewed. Where a member is unable to attend meetings in person, he/she may submit a power of attorney signed by the member to appoint another member to attend and express opinions on his/her behalf. The power of attorney shall clearly specify the scope and duration of the authorization. Each member may accept authorization from no more than one other member. When an independent director member is unable to attend the meeting, he/she shall delegate another independent director member to attend the meeting on his/her behalf.
- Article 27** The members of the internal audit department may attend the meetings of the Audit Committee. The directors and other senior management of the Company may be invited to attend the meetings when necessary.

- Article 28** Minutes of the meetings of the Audit Committee shall be taken, and the members and other personnel attending the meeting shall sign the minutes of the meeting of the Committee, which shall be kept by the Board secretary of the Company.
- Article 29** The deliberation opinions adopted at the meeting of the Audit Committee shall be submitted in writing to the Board of the Company.
- Article 30** All personnel attending the meeting shall be obliged to keep confidentiality regarding the matters discussed at the meeting, and shall not disclose relevant information without authorization.
- Article 31** Any member of the Audit Committee shall abstain from voting if he/she has conflicts of interest in the matters discussed at the meeting.
- Article 32** The convening procedures, voting methods and resolutions passed at the meeting of the Audit Committee must comply with requirements under relevant laws, regulations, the securities regulatory rules of the place where the Company's shares are listed, the Articles of Association and these Rules.
- Article 33** The chairperson (convenor) of the Audit Committee shall actively attend annual general meetings (if absent, another member or his/her duly appointed representative shall attend instead) and respond to questions raised at the meeting.

Chapter V Information Disclosure

- Article 34** The Company shall disclose information on members of the Audit Committee, including their composition, professional background and working experience in the last five years and changes of members of the Audit Committee. The Company shall disclose the annual performance of the Audit Committee, mainly including its performance of duties and the convening of the meetings of the Audit Committee, on the website of the Shanghai Stock Exchange while disclosing its annual report.
- Article 35** Where any material issue identified by the Audit Committee in the course of performing its duties falls within information disclosure standards under the securities regulatory rules of the place where the Company's shares are listed, the Company shall disclose such issue and its rectification in a timely manner.
- Article 36** Where any opinion on a matter within its terms of reference presented by the Audit Committee is not adopted by the Board, the Company shall disclose such matter and give a full description of the reasons therefor.
- Article 37** The Company shall disclose the special opinions issued by the Audit Committee on major events of the Company in accordance with the laws, administrative regulations, departmental rules, the securities regulatory rules of the place where the Company's shares are listed and relevant normative documents.

Chapter VI Supplementary Provisions

- Article 38** These Rules shall be effective and implemented from the date of the Company's initial public offering of H shares and listing on the Stock Exchange of Hong Kong Limited, following the passing of the resolution of the Board.
- Article 39** In these Rules, the terms "more than" and "within" include the given figure; the term "over" does not include the given figure.
- Article 40** In these Rules, the term "independent director" shall have the same meaning as "independent non-executive director" in the Hong Kong Listing Rules.
- Article 41** The matters not covered in these Rules shall be implemented in accordance with the relevant national laws, administrative regulations, departmental rules, normative documents, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association. In case of any conflicts between these Rules and any laws, administrative regulations, departmental rules, normative documents to be promulgated by the state in the future, the securities regulatory rules of the place where the Company's shares are listed or the Articles of Association as amended under lawful procedures, the relevant laws, administrative regulations, departmental rules, normative documents promulgated by the state, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association shall prevail.
- Article 42** The right to interpret these Rules shall reside with the Board.