# SHANGHAI XIZHI TECHNOLOGY CO., LTD.

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### CHAPTER 1 GENERAL PROVISIONS

**Article 1** In order to ensure the timeliness and professionalism of internal audit work, enhance the Company's core competitiveness, and improve the corporate governance structure of the Company, Shanghai Xizhi Technology Co., Ltd. (the "**Company**") has, pursuant to the Company Law of the People's Republic of China (the "**Company Law**"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the appendices thereto (the "**Hong Kong Listing Rules**"), the Articles of Association of Shanghai Xizhi Technology Co., Ltd. (the "**Articles of Association**") and other relevant provisions, established an Audit Committee under the board of directors and formulated these Terms of Reference.

**Article 2** The Audit Committee shall comprise at least three members, all of whom shall be non-executive Directors who do not hold senior management positions in the Company, and at least one of whom shall possess the appropriate professional qualifications as required under Rule 3.10(2) of the Hong Kong Listing Rules. Independent non-executive Directors shall represent a majority of the members of the Audit Committee, and the chairman (convener) of the Audit Committee must be an independent non-executive Director.

### CHAPTER 2 TERMS OF REFERENCE OF THE AUDIT COMMITTEE

**Article 3** The Audit Committee of the board of directors is a specialised committee established under the board of directors and shall exercise the powers of the supervisory committee as prescribed under the Company Law. It shall be primarily responsible for the communication with, and supervision and review of, the internal and external audits of the Company, the evaluation and improvement of the Company's internal control system, financial reporting, risk management, as well as risk assessment of major investment projects of the Company under operation. The Audit Committee shall report its work to the board of directors.

**Article 4** Composition:

(I) The Audit Committee shall comprise no fewer than three non-executive Directors who do not hold senior management positions in the Company, of whom independent non-executive Directors shall represent a majority, and at least one independent non-executive Director shall be a financial or accounting professional and meet the requirements of Rule 3.10(2) of the Hong Kong Listing Rules.

A former partner of the external audit firm currently responsible for auditing the Company's accounts shall be prohibited from acting as a member of the Audit Committee for a period of two years from the later of the following dates:

1. the date on which he or she ceases to be a partner of such external audit firm; or

2. the date on which he or she ceases to have any financial interest in such external audit firm.

(II) Members of the Audit Committee shall be nominated by the chairman of the board of directors, more than one-half of the independent non-executive Directors, or more than one-third of all Directors, and shall be elected, appointed and removed by the board of directors.

(III) The Audit Committee shall have one chairman (convener), who must be an independent non-executive Director, and at least one member shall: (i) possess the appropriate professional qualifications as required under Rule 3.10(2) of the Hong Kong Listing Rules, or have appropriate accounting or related financial management expertise; and (ii) satisfy the qualification requirements for accounting professionals as required by the securities exchange in the place where the Company's shares are listed.

(IV) The term of office of the Audit Committee shall be the same as that of the Directors. A member may serve consecutive terms if re-elected upon expiry of his or her term of office. If, during his or her term of office, any member ceases to be a Director of the Company, or any member who is required to have the status of an independent non-executive Director ceases to satisfy the independence requirements prescribed by laws, regulations, normative documents, the Hong Kong Listing Rules or the Articles of Association, such member shall automatically cease to be a member of the Audit Committee, and the board of directors shall fill the vacancy in accordance with the above provisions. If the resignation of an independent non-executive Director will result in the proportion of independent non-executive Directors on the Audit Committee failing to comply with these Terms of Reference or the Articles of Association, or there being no accounting professional among the independent non-executive Directors, the proposed resigning independent non-executive Director shall continue to perform his or her duties until the appointment of a new independent non-executive Director; and the Company shall complete the by-election within sixty days from the date on which such independent non-executive Director submits his or her resignation.

(V) If a new session of Directors is not elected in a timely manner upon expiry of the term of office of the Directors, before the newly elected Directors assume office, the original Directors who served as members of the Audit Committee shall continue to perform their duties in accordance with the provisions of laws, administrative regulations, departmental rules, the Hong Kong Listing Rules, the Articles of Association and these Terms of Reference.

(VI) The Audit Committee shall establish an Internal Audit Department as its day-to-day working body, which shall be responsible for daily liaison work and the organisation of meetings of the Audit Committee.

**Article 5** Duties and Powers:

(I) Pursuant to the authorisation of the board of directors, formulate the policies, procedures and related internal control systems for the selection and appointment of the external auditor; propose the initiation of the relevant work relating to the selection and appointment of the external auditor; review the selection and appointment documents; determine the evaluation factors and specific scoring criteria; supervise the selection and appointment process; make recommendations to the board of directors on the appointment, re-appointment and audit fees of the external auditor, or its removal; approve the remuneration and terms of engagement of the external auditor; and deal with any issues relating to the resignation of the external auditor or the dismissal of the external auditor. The Audit Committee shall perform the aforesaid powers and duties free from any improper influence of the Company's controlling shareholders, de facto controllers, Directors or senior management;

(II) Monitor and evaluate the work of the external auditor; review and monitor, in accordance with applicable standards, whether the external auditor is independent and objective and whether the audit procedures are effective; urge the external auditor to act with honesty and integrity and to perform its duties diligently and responsibly, review and verify the Company's financial reports, discharge its special duty of care and express professional opinions prudently. In this regard, the Audit Committee must:

1. review all relationships between the Company and the external auditor (including non-audit services);

2. obtain from the external auditor annually information on the policies and procedures adopted by the auditor for maintaining its independence and monitoring compliance with relevant rules, including those relating to the provision of non-audit services and the rotation of audit partners and staff;

3. meet with the external auditor at least twice a year in the absence of management to discuss matters relating to audit fees, any issues arising from the audit work and any other matters raised by the external auditor;

4. conduct an annual review of the nature of all non-audit services performed by the external auditor, the level of the related fees, the level of fees for individual services and in aggregate payable to that external auditor, and the criteria for determining the remuneration of audit staff, and consider whether safeguards are in place to ensure that the provision of such non-audit services by the external auditor will not pose a threat to its objectivity and independence in relation to its audit work;

5. review the policies relating to the hiring of employees or former employees of the external auditor, monitor the application of such policies, and consider whether any such circumstances would impair, or appear to impair, the external auditor's judgment or independence in respect of the audit work;

6. report regularly (at least annually) to the board of directors on the performance evaluation of the engaged accounting firm and on the Audit Committee's discharge of its supervisory responsibilities;

(III) Prior to the commencement of the audit work, discuss with the auditor the nature and scope of the audit and the relevant reporting responsibilities; discuss with the auditor the audit scope, audit plan, audit approach and major issues identified during the audit; and monitor and evaluate whether the external audit institution has performed its duties diligently and responsibly;

(IV) Formulate and implement policies on the provision of non-audit services by the external auditor. The Audit Committee shall report to the board of directors on any matters in respect of which action or improvement is needed and make recommendations. For the purpose of this provision, "external auditor" includes any entity that is under common control, ownership or management with the firm responsible for the audit, or any entity that a reasonable and informed third party, having knowledge of all relevant information, would reasonably conclude to be part of the domestic or international business of the firm responsible for the audit;

(V) Review the financial information and disclosure of the Company. Review the integrity of the Company's financial statements, annual reports and accounts, half-year reports, quarterly reports and monthly financial data, and review significant opinions relating to financial reporting contained in such statements and reports, and provide opinions on the truthfulness, completeness and accuracy of the financial reports. Before submitting the aforesaid reports and financial data to the board of directors, the Committee shall in particular review the following matters:

1. any changes in accounting policies, accounting estimates or any material correction of accounting errors, and any changes in practice;

2. matters involving significant judgments;

3. significant adjustments arising from the audit;

4. the going concern assumption and any qualifications;

5. whether there has been compliance with accounting standards;

6. whether there has been compliance with the Hong Kong Listing Rules and legal requirements relating to financial reporting;

(VI) In relation to paragraph (V) above:

1. members of the Committee shall liaise with the board of directors and senior management of the Company;

2. the Committee shall consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and shall give due consideration to any matters raised by the Company's internal accounting and financial reporting staff or the auditor;

3. pay particular attention to whether there is any possibility of fraud, misconduct or material misstatement in relation to financial reporting;

4. monitor the rectification of issues relating to financial reporting, urge the relevant responsible departments of the Company to formulate rectification measures and timetable, conduct follow-up reviews, monitor the implementation of such rectification measures, and, where required under the rules of the place where the Company's shares are listed, disclose in a timely manner the completion of such rectification;

(VII) review the Company's financial controls, internal controls and risk management systems;

(VIII) monitor and evaluate the work of internal audit, review whether the internal audit function is effective, ensure that the work of the internal and external auditors is properly coordinated, and also ensure that the internal audit function is adequately resourced and has appropriate standing within the Company. In this regard, the Audit Committee shall:

1. guide and supervise the establishment and implementation of the internal audit system;

2. review the Company's annual internal audit work plan;

3. procure the implementation of the Company's internal audit plan, hear reports from the internal audit department on a quarterly basis, including but not limited to the progress of implementation of the internal audit plan and issues identified in the course of the internal audit work, and hear the internal audit work report of the internal audit department after the end of each financial year;

4. guide the effective operation of the internal audit department. The internal audit department of the Company shall report its work to the Audit Committee, and all audit reports, rectification plans in respect of audit issues and the status of rectification submitted by the internal audit department to management shall simultaneously be submitted to the Audit Committee;

5. report to the board of directors on the progress and quality of internal audit work and any material issues identified;

6. coordinate the relationship between the internal audit department and external audit entities, such as accounting firms and state audit institutions.

(IX) unless otherwise provided by laws and regulations, oversee the internal audit department to conduct an inspection of the following matters at least once every six months, issue an inspection report and submit the same to the Audit Committee. Where the inspection reveals any unlawful or non-compliant conduct or irregular operation of the Company:

1. the implementation of major events of the Company, including the use of proceeds raised, provision of guarantees, connected transactions, securities investments and derivatives transactions, provision of financial assistance, acquisition or disposal of assets, and external investments;

2. the Company's substantial fund movements and the fund movements between the Company and its Directors, senior management, controlling shareholders, actual controllers and their connected persons;

(X) continuously monitor the actual management and use of proceeds raised, oversee the internal audit department to conduct an inspection of the deposit and use of proceeds raised at least once every six months, and promptly report the inspection results to the Audit Committee. Where the Audit Committee considers that there is any non-compliance or material risk in the management of the Company's proceeds raised, or where the internal audit department fails to submit the inspection results report in accordance with the aforesaid provisions, it shall promptly report the same to the board of directors;

(XI) monitor and evaluate the internal control of the Company and, based on the internal audit report and relevant information submitted by the internal audit department, issue a written assessment opinion on the effectiveness of the Company's internal control and report the same to the board of directors; the board of directors or the Audit Committee shall, based on the evaluation report and relevant information issued by the internal audit department, evaluate the establishment and implementation of the Company's internal control and issue an annual self-assessment report on internal control. The internal control evaluation report shall include the following contents:

1. a statement by the board of directors on the truthfulness of the internal control evaluation report;

2. the overall situation of the internal control evaluation work;

3. the basis, scope, procedures and methods of the internal control evaluation;

4. the defects in internal control and the determination thereof;

5. the rectification of internal control defects identified in the previous year;

6. the rectification measures proposed to be taken in respect of internal control defects identified in the current year;

7. the conclusion on the effectiveness of internal control;

(XII) discuss the risk management and internal control systems with management to ensure that management has discharged its duty to establish effective internal control. Such discussion shall include whether the resources, staff qualifications and experience of the Company in respect of its accounting and financial reporting functions are adequate, and whether the training programmes received by staff and the relevant budget are sufficient;

(XIII) consider, either on its own initiative or as delegated by the board of directors, the major investigation findings on risk management and internal control matters and management's response to such findings;

(XIV) review the Company's financial and accounting policies and practices;

(XV) review the appointment or dismissal of the person in charge of financial affairs and submit the same to the board of directors for consideration;

(XVI) review the external auditor's management letter issued to management, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control, and management's response;

(XVII) ensure that the board of directors provides a timely response to the matters raised in the external auditor's management letter issued to management;

(XVIII) review the following arrangements established by the Company: employees of the Company may, in confidence, raise concerns about possible improprieties or matters in financial reporting, internal control or other aspects; ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action to be taken by the Company; and act as the primary representative of the Company in its dealings with the external auditor and be responsible for overseeing the relationship between the two;

(XIX) report to the board of directors on the above matters and the matters set out in Code Provision D.3 of Appendix C1 to the Hong Kong Listing Rules; unless restricted by law or regulation, report to the board of directors on the decisions or recommendations of the Audit Committee, and report to the board of directors on any matters in respect of which the Audit Committee considers that action or improvement is necessary, and make recommendations;

(XX) perform such other duties as may be assigned by the board of directors or consider such other topics as may be defined by the board of directors;

(XXI) review and oversee the Company's corporate governance work, including but not limited to:

1. assist in developing and reviewing the Company's corporate governance policies and practices, and make recommendations to the board of directors;

2. review and monitor the training and continuous professional development of Directors and senior management;

3. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

5. review the Company's compliance with the Corporate Governance Code as set out in Appendix C1 to the Hong Kong Listing Rules and the disclosure in the Corporate Governance Report.

(XXII) such other relevant matters as set out in the code provisions relating to the Audit Committee and corporate governance work under the Corporate Governance Code in Appendix C1 to the Hong Kong Listing Rules, as amended from time to time, and as required under the Hong Kong Listing Rules;

(XXIII) the powers of the supervisory committee as prescribed under the Company Law.

**Article 6** In addition to the duties and powers set out in Article 5, the Audit Committee of the board of directors shall exercise the powers of the supervisory committee as prescribed under the Company Law. 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 directors for consideration after obtaining the consent of more than half of all members of the Audit Committee:

(I) the disclosure of financial information in financial accounting reports and 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 person in charge of financial affairs of the Company;

(IV) changes in accounting policies or accounting estimates, or material corrections of accounting errors, made for reasons other than changes in accounting standards;

(V) other matters as prescribed by laws, administrative regulations, departmental rules, normative documents, the Hong Kong Listing Rules and the Articles of Association.

**Article 7** Working procedures:

(I) The Internal Audit Department shall be responsible for making preliminary preparations for the decision-making of the Audit Committee and providing the following written materials relating to the relevant aspects of the Company:

1. the relevant financial reports, financial budgets and decisions of the Company, and the related information;

2. work reports of the internal and external audit institutions;

3. the external audit engagement contract and related work reports;

4. information on the Company's external disclosures;

5. audit reports on the Company's material connected transactions;

6. other relevant matters.

(II) The Audit Committee shall review the reports provided by the Internal Audit Department at its meetings, and submit the relevant written resolutions to the board of directors for discussion:

1. evaluation of the work of the external audit institution, and the engagement and replacement of the external audit institution;

2. whether the Company's internal audit system has been effectively implemented, and whether the Company's financial reports are complete and true;

3. whether the Company's externally disclosed financial reports and other information are objective and true, and whether the Company's material connected transactions are in compliance with the relevant laws and regulations;

4. evaluation of the work of the Company's internal financial department and audit department (including the persons in charge thereof);

5. where the target amount involved in special investigations, litigation matters, fraud and non-compliance incidents and other related matters accounts for more than 10% of the Company's latest audited net assets, such matters shall be reported to the Audit Committee, which shall in turn report them to the board of directors as it considers appropriate;

6. other relevant matters.

**Article 8** Rules of Procedure:

(I) Notice of an Audit Committee meeting shall be given at least three (3) days prior to the meeting by communication, e-mail or facsimile. Subject to the consent of all members, the aforementioned notice period may be waived, provided that the chairman shall explain the same at the meeting and provide members with sufficient basis for the exercise of their voting rights. The meeting shall be chaired by the chairman. Where the chairman is unable to attend the meeting, he or she may appoint another member (who shall be an independent non-executive Director) to chair the meeting. Audit Committee meetings shall be held by way of physical meeting or by such other means as may be accepted by all members. Provided that members are able to fully express their views, facilities such as internet, telephone or video may be used to facilitate members' attendance at Audit Committee meetings, and members attending an Audit Committee meeting by such means shall be deemed to be present at a physical meeting.

(II) The Audit Committee shall hold at least one meeting each quarter. Extraordinary meetings may be convened upon the proposal of two or more members or where the convener considers it necessary.

(III) An Audit Committee meeting shall be held only if attended by more than two-thirds (2/3) of the members. Each member shall have one vote. Resolutions passed at a meeting must be approved by more than half of all the members.

(IV) Audit Committee meetings shall be attended by the members in person. Where a member is unable to attend a meeting for any reason, he or she may appoint another member in writing to attend on his or her behalf. Where a member does not attend an Audit Committee meeting and has not appointed a proxy to attend on his or her behalf, he or she shall be deemed to have waived his or her voting right at that meeting. The meeting agenda and all relevant meeting papers shall be sent in a timely manner to all members of the Committee and, where appropriate, to other attendees in accordance with these Terms of Reference. Prior to the meeting, members shall carefully review the meeting materials.

(V) Voting at an Audit Committee meeting shall be conducted by a show of hands or by poll. Subject to members being able to fully express their views, a meeting may be conducted and resolutions may be passed by telephone, facsimile, e-mail or other electronic communication means, and shall be signed by the members attending the meeting.

(VI) Members of the Internal Audit Department may attend Audit Committee meetings as observers. Where necessary, Directors and senior management of the Company and the financial manager may also be invited to attend the meeting.

(VII) Where necessary, the Audit Committee may engage intermediary agencies to provide professional advice for its decision-making, and the expenses so incurred shall be borne by the Company.

(VIII) As a general rule, the Audit Committee meeting shall not consider any matter or issue not specified in the meeting notice. Under special circumstances where additional matters or issues need to be included, such additional matters or issues may only be considered and resolved upon with the consent of more than two-thirds of the members.

(IX) The convening procedures of Audit Committee meetings, the methods of voting and the resolutions passed at such meetings shall comply with the relevant laws and regulations, the Hong Kong Listing Rules, the Articles of Association and these Terms of Reference.

(X) Audit Committee meetings shall be arranged by the secretary to the board of directors of the Company. Minutes shall be kept for the meetings, and such minutes shall record in sufficient detail the matters considered at the meetings and the decisions reached, including any concerns raised or dissenting views expressed by members. The members attending the meeting shall sign the minutes. Full minutes of Committee meetings shall be kept by the duly appointed secretary to the Committee (normally the company secretary) for a period of 10 years. Draft and final versions of the minutes shall be sent to all members of the Committee within a reasonable period after the meeting, the draft for members' comments and the final version for their records. Directors of the Company may inspect the minutes at any reasonable time on reasonable notice.

(XI) The resolutions passed and voting results of the Audit Committee meetings shall be reported to the board of directors of the Company in writing.

(XII) The members attending the meeting and the persons present at the meeting shall owe a duty of confidentiality in respect of the matters discussed at the meeting and shall not disclose the relevant information without authorisation.

(XIII) Where any member of the Audit Committee or his or her immediate family member, or any other enterprise controlled by such member of the Audit Committee or his or her immediate family member, has any direct or indirect interest in any matter to be discussed at a meeting, such member shall disclose to the Audit Committee the nature and extent of such interest as soon as practicable.

(XIV) In the event of any of the circumstances described in the preceding paragraph, the interested member shall abstain from voting at the Audit Committee meeting. However, where the other members of the Audit Committee unanimously determine after deliberation that such interest will not have a significant impact on the matter to be voted on, the interested member may participate in the voting.

(XV) If the board of directors of the Company considers it inappropriate for the interested member referred to in the preceding paragraph to participate in the voting, it may revoke the voting result in respect of the relevant resolution and require the non-interested members to re-vote on the relevant resolution.

(XVI) The Audit Committee meeting shall consider and resolve on a resolution without counting the interested member towards the quorum. If, after the interested member has abstained, the number of members of the Audit Committee is insufficient to constitute the minimum quorum for the meeting, all members (including the interested member) shall resolve on procedural matters such as submitting the relevant resolution to the board of directors of the Company for consideration, and the board of directors of the Company shall consider such resolution.

(XVII) The minutes and resolutions of the Audit Committee meeting shall state that the interested member was not counted towards the quorum and did not participate in the voting.

(XVIII) The Audit Committee shall, based on the internal audit report and relevant data submitted by the internal audit department, issue a written assessment opinion on the effectiveness of the Company's internal control and report the same to the board of directors. Where the board of directors disagrees with the Audit Committee's view on the selection, appointment, resignation or removal of the external accounting firm, the Company shall include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reasons why the board of directors has taken a different view.

(XIX) The chairman of the Audit Committee, or in his or her absence, another member of the Audit Committee or his or her duly appointed delegate, shall attend the annual general meeting of the Company at the invitation of the chairman of the board and answer questions at the meeting.

(XX) The Audit Committee shall make available its terms of reference on the website of The Stock Exchange of Hong Kong Limited and the website of the Company, explaining its role and the authority delegated to it by the board of directors.

## CHAPTER 3 SUPPLEMENTARY PROVISIONS

**Article 9** These Terms of Reference shall be considered and approved by the board of directors and shall take effect and be implemented from the date on which the Company's initial public offering of overseas listed foreign shares (H Shares) is completed and such H Shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

**Article 10** Any matters not covered by these Terms of Reference shall be governed by the relevant provisions of laws, administrative regulations, normative documents, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association. In the event of any inconsistency between these Terms of Reference and the relevant provisions of laws, administrative regulations, normative documents, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association, the latter shall prevail.

**Article 11** These Terms of Reference shall be formulated and amended by the board of directors of the Company, and the board of directors shall be responsible for the interpretation hereof.