

QINGDAO GON TECHNOLOGY CO., LTD.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS (Applicable after the issuance and listing of H Shares)

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TABLE OF CONTENTS

CHAPTER 1	GENERAL	2
CHAPTER 2	COMPOSITION	2
CHAPTER 3	DUTIES AND AUTHORITIES.....	3
CHAPTER 4	DECISION-MAKING PROCEDURES	7
CHAPTER 5	RULES OF PROCEDURES	8
CHAPTER 6	SUPPLEMENTARY PROVISIONS	9

CHAPTER 1 GENERAL

Article 1 In order to strengthen the decision-making functions of the Board of Directors of Qingdao Gon Technology Co., Ltd. (the “Company”), achieve pre-event auditing and professional auditing, ensure effective supervision by the Board over the management and improve the corporate governance of the Company, in accordance with the Company Law of the People’s Republic of China, the Code of Corporate Governance for Listed Companies, the Administrative Measures for Independent Directors of Listed Companies, the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, the Self-Regulatory Guidelines No. 1 for Companies Listed on the Shenzhen Stock Exchange – Standardized Operation of Main Board Listed Companies, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”), and other relevant laws, regulations and normative documents, the securities regulatory rules of the place where the Company’s shares are listed, and the Articles of Association of the Company (the “Articles of Association”), the Board has established the audit committee (the “Audit Committee” or “Committee”) and formulated these Terms of Reference.

Article 2 The Audit Committee of the Board is a specialised working body established by the Board in accordance with the Articles of Association. It shall exercise the powers of the board of supervisors as provided under the Company Law, and is primarily responsible for communication, supervision and review in respect of the Company’s internal and external audits, as well as for reviewing the Company’s financial information and its disclosures.

CHAPTER 2 COMPOSITION

Article 3 The Audit Committee shall consist of three directors, all of whom shall be non-executive directors or independent directors who do not hold senior management positions in the Company. A majority of the members shall be independent directors (including at least one accounting expert possessing appropriate professional qualifications or expertise in accounting or related financial management, and meeting the qualification requirements for audit committee financial expert prescribed by the securities exchange of the place where the Company’s shares are listed). For the purposes of these Terms of Reference, the term “independent director” shall have the same meaning as “independent non-executive director” under the Hong Kong Listing Rules.

Article 4 Members of the Audit Committee shall be nominated by the chairman of the Board, more than one half of the independent directors, or more than one third of all directors, and shall be elected by the Board.

Article 5 The Audit Committee shall have one chairman (i.e. the convener), who shall be an independent director and shall be responsible for presiding over the work of the Committee. The chairman of the Committee shall possess relevant professional experience in accounting or financial management and shall be a professional accountant. The chairman shall be elected from among the members of the Committee and shall be subject to approval by the Board.

The term of office of the Audit Committee shall be the same as that of the Board for the corresponding term. Upon expiration of a member’s term of office, such member may be re-elected and may serve consecutive terms. If, during the term, a member ceases to hold the position of director of the Company, he or she shall automatically cease to be a member of the Committee, and the Board shall, in accordance with Articles 3 to 5 of these Terms of Reference, appoint a replacement to fill the vacancy.

Where an independent director member of the Audit Committee resigns or is removed due to the occurrence of circumstances specified under relevant regulations, resulting in the proportion of independent directors on the Committee failing to comply with the requirements of these Terms of Reference or the Articles of Association, or the absence of an independent director who is a professional accountant, the Company shall complete the appointment of a replacement within sixty days from the date on which such circumstances arise. The independent director who intends to resign shall continue to perform his or her duties until the newly appointed independent director takes office.

Article 6 An audit working group shall be established under the Audit Committee as its routine administrative body, which shall operate jointly with the Company's audit department and shall be responsible for day-to-day liaison work and the organization of meetings.

CHAPTER 3 DUTIES AND AUTHORITIES

Article 7 The principal duties and authorities of the Audit Committee shall include:

(1) Relationship with the Company's external auditors

1. To recommend to the Board the appointment, re-appointment, removal and replacement of the external auditor, to make recommendations to the Board on the remuneration and terms of engagement of the external auditor, and to deal with any matters relating to the resignation or dismissal of the external auditor. Where the Board does not agree with the Audit Committee's recommendations on the selection, appointment, resignation or removal of the external auditor, the Company shall include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendations and the reasons why the Board holds a different view;
2. To review and monitor the independence and objectivity of the external auditor and the effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the auditor the nature and scope of the audit and reporting responsibilities before the audit commences; and
3. To develop and implement policies governing the provision of non-audit services by the external auditor. For the purposes of this provision, "external auditor" shall include any entity that is under common control, ownership or management with the audit 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 local or international network of the audit firm responsible for the audit. The Committee shall report to the Board and make recommendations on any actions or improvements it considers necessary.

(2) Review of the Company's financial information

To monitor the integrity of the Company's financial statements and annual report and accounts, interim report and quarterly reports, and to review significant financial reporting opinions contained therein. Before submitting such statements and reports to the Board, the Committee shall give particular consideration to the following matters:

1. any changes in accounting policies and practices;
2. areas involving significant judgments;
3. significant adjustments resulting from audit;
4. the going concern assumption and any qualifications;
5. compliance with accounting standards; and
6. compliance with the securities regulatory rules and legal requirements relating to financial reporting of the place where the Company's shares are listed.

For the purposes of the paragraph (2), members of the Committee shall liaise with the Board and the Company's senior management. The Audit Committee shall meet with the Company's external auditor at least twice each year. The Committee shall consider any significant or unusual items reflected in, or required to be reflected in, such reports and accounts, and shall give due consideration to any matters raised by the Company's accounting and financial reporting staff, compliance department or external auditor.

(3) Oversight of the Company's financial reporting system, risk management and internal control systems

1. To review the Company's financial controls and to review the Company's risk management and internal control systems;
2. To discuss with management the risk management and internal control systems, ensuring that management has fulfilled its responsibilities in establishing effective systems. Discussions shall include whether the Company has adequate resources, staff qualifications and experience in its accounting and financial reporting functions, and whether the training provided to staff and the related budget are sufficient;
3. Either proactively or as assigned by the Board, to examine significant findings from investigations concerning risk management and internal control matters and management's responses to such findings;
4. If the Company has an internal audit function, to ensure coordination between internal and external auditors; to ensure that the internal audit function has adequate resources and appropriate standing within the Company; and to review and monitor its effectiveness;
5. To review the Company's and its subsidiaries' financial and accounting policies and practices;

6. To review the explanation letters regarding audit findings issued by the external auditor to management, and to consider any significant questions raised by the external auditor regarding accounting records, financial statements, or control systems, together with management's responses;
 7. To ensure that the Board responds in a timely manner to matters raised in the explanation letters regarding audit findings from the external auditor;
 8. To report to the Board on the matters set out in this article; and
 9. To consider any other matters as defined by the Board.
- (4) Oversight of whistleblowing arrangements: to monitor arrangements established by the Company whereby employees may, in confidence, raise concerns regarding possible improprieties in financial reporting, internal controls, or other matters. The Committee shall ensure that appropriate arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action.
 - (5) Principal liaison with external auditors: to act as the key representative between the Company and the external auditor, and to monitor the relationship between them.

Article 8 The Audit Committee of the Board shall review the Company's financial and accounting reports and express opinions on their authenticity, accuracy and completeness, with particular focus on material accounting and auditing issues in the Company's financial and accounting reports. The Committee shall pay special attention to possible fraud, corruption or material misstatement relating to the financial and accounting reports, and shall supervise the rectification of issues identified in the such reports.

The Audit Committee shall make recommendations to the Board on the appointment or replacement of external auditor and shall review the audit fees and terms of engagement of the external auditors, and shall not be subject to any improper influence from the Company's controlling shareholders, de facto controllers, or directors or senior management.

The Audit Committee shall urge the external auditor to act with integrity, honesty, diligence and due care, to strictly comply with professional standards and industry self-disciplinary requirements, to rigorously implement internal control procedures, to examine and verify the Company's financial and accounting reports, to fulfill special care obligations, and to issue professional opinions prudently.

Article 9 The Audit Committee shall supervise and guide the internal audit department to conduct inspections at least once every six months in respect of the following matters, issue inspection reports and submit such reports to the Board. Where the inspections reveal any illegal or non-compliant conduct or irregular operations of the Company, a timely report shall be made to the securities exchange of the place where the Company's shares are listed:

- (1) the implementation of major matters such as the use of raised funds, provision of external guarantees, related party transactions, securities investment, venture capital investment, provision of financial assistance to external parties, purchase or disposal of assets, and external investments; and
- (2) the Company's significant fund transfers, as well as fund transactions with directors, senior management, controlling shareholders, de facto controllers and their associates.

Article 10 In guiding and supervising the work of the internal audit department, the Audit Committee shall perform the following major duties:

- (1) to guide and supervise the establishment and implementation of the internal audit system;
- (2) to review the Company's annual internal audit work plan;
- (3) to supervise the implementation of the Company's internal audit plan;
- (4) to guide the effective operation of the internal audit department. The internal audit department shall report its work to the Audit Committee, and all audit reports submitted by the internal audit department to management, together with rectification plans and progress reports for identified audit issues, shall also be concurrently submitted to the Audit Committee;
- (5) to report to the Board on the progress and quality of internal audit work and on any major issues identified; and
- (6) to coordinate the relationship between the internal audit department and external audit institutions, including accounting firms and state audit authorities.

Article 11 The Board or the Audit Committee shall, based on the evaluation reports and relevant materials issued by the internal audit department, issue an annual internal control self-assessment report on the establishment and implementation of internal control systems relating to financial reporting and information disclosures. The internal control self-assessment report shall include at least the following:

- (1) a statement by the Board on the authenticity of the internal control report;
- (2) an overview of the internal control evaluation work;
- (3) the basis, scope, procedures and methods of the internal control evaluation;
- (4) internal control deficiencies and the identification thereof;
- (5) the rectification status of internal control deficiencies identified in the previous year;
- (6) the rectification measures proposed for internal control deficiencies identified in the current year; and
- (7) a conclusion on the effectiveness of internal control.

Article 12 The Audit Committee shall be accountable to the Board, and its proposals shall be submitted to the Board for consideration and decision.

Article 13 The internal audit department shall report to the Board of Directors or the Audit Committee on the status of internal audit work and issues identified at least once every quarter, and shall submit an internal audit report to them at least once a year.

With respect to internal control deficiencies identified during the review process, the internal audit department shall urge the relevant responsible departments to formulate rectification measures and timetables, and shall conduct follow-up reviews of internal controls to supervise the implementation of such rectification measures.

Where material internal control deficiencies or significant risks are identified during the review process, the internal audit department shall report promptly to the Board or the Audit Committee.

Article 14 The Audit Committee shall be provided with sufficient resources to discharge its aforementioned duties effectively.

CHAPTER 4 DECISION-MAKING PROCEDURES

Article 15 The working group established under the Audit Committee shall be responsible for carrying out the preparatory work for the Committee's decision-making and for providing relevant written information concerning the Company, including:

- (1) the Company's relevant financial reports;
- (2) work reports of the internal and external auditors;
- (3) external audit engagement contracts and related work reports;
- (4) the Company's external information disclosure;
- (5) audit reports on the Company's major related party transactions; and
- (6) other relevant matters.

Article 16 The Audit Committee shall review and discuss on the reports provided by the audit working group and submit the relevant written resolutions and materials to the Board for consideration, including:

- (1) evaluation of the work of the external auditor and the appointment and replacement of the external auditor;
- (2) whether the Company's internal audit system has been effectively implemented and whether the Company's financial reports are complete and accurate;
- (3) whether the Company's externally disclosed financial reports and other information are objective and accurate, and whether the Company's material related party transactions comply with relevant laws and regulations;
- (4) evaluation of the performance of the Company's finance department and internal audit department (including their respective heads); and
- (5) other relevant matters.

Article 17 The Audit Committee shall be responsible for reviewing the Company's financial information and its disclosure, and for supervising and evaluating the internal and external audit work and internal control systems. The following matters shall be submitted to the Board for consideration upon the approval of more than half of all the members the Audit Committee:

- (1) the disclosure of financial information in the financial and accounting reports and periodic reports, and the internal control self-assessment report;
- (2) the appointment or removal of the accounting firm engaged to undertake the Company's audit work;
- (3) the appointment or removal of the person in charge of the Company's finance function;
- (4) changes in accounting policies or accounting estimates, or corrections of material accounting errors, other than those arising from changes in accounting standards; and
- (5) other matters as prescribed by laws, administrative regulations, securities regulatory rules of the place where the Company's shares are listed, and the Articles of Association.

CHAPTER 5 RULES OF PROCEDURES

Article 18 Meetings of the Audit Committee shall be held at least once every quarter. An extraordinary meeting may be convened upon the proposal of two or more members or when the chairman of the Audit Committee deems it necessary. The Audit Committee shall give notice to all members at least three days prior to the convening of a meeting. Meetings shall be chaired by the chairman of the Committee; where the chairman is unable to attend, he or she may entrust another independent director member to chair the meeting.

Article 19 A meeting of the Audit Committee shall be valid only if attended by more than two-thirds of its members. Each member shall have one vote. Resolutions of the meeting shall be passed by a majority of all Committee members.

Article 20 Voting at meetings of the Audit Committee shall be conducted by a show of hands or by ballot. Extraordinary meetings may be convened and voted on by means of communication.

Article 21 Members of the audit working group may attend meetings of the Audit Committee as non-voting participants. The Audit Committee may, where necessary, invite directors or senior management of the Company to attend meetings.

Article 22 Where necessary, the Audit Committee may engage professional agents to provide advice in relation to its decision-making, and the fees incurred shall be borne by the Company.

Article 23 The procedures for convening meetings of the Audit Committee, the voting methods, and the remuneration policies and distribution plans to be approved at the meetings shall comply with applicable laws and regulations, the securities regulatory rules of the place where the Company's shares are listed, the Articles of Association, and these Terms of Reference.

Article 24 Minutes shall be kept of the meetings of the Audit Committee, and members present at the meeting shall sign the minutes. The minutes shall be kept by the Company Secretary.

Article 25 Resolutions passed and the results of voting at meetings of the Audit Committee shall be submitted to the Board in writing.

Article 26 All Committee members attending meetings shall keep the matters discussed confidential and shall not disclose any relevant information without authorization.

CHAPTER 6 SUPPLEMENTARY PROVISIONS

Article 27 These Terms of Reference shall take effect and be implemented from the date on which the H shares of the Company are listed on The Stock Exchange of Hong Kong Limited, following approval by the Board.

Article 28 Matters not covered by these Terms of Reference shall be governed by the relevant laws and regulations of the PRC, the securities regulatory rules of the place where the Company's shares are listed, and the Articles of Association. In the event of any conflict between these Terms of Reference and the relevant laws and regulations of the PRC, the securities regulatory rules of the place where the Company's shares are listed, or the Articles of Association, the provisions of the relevant laws and regulations and the Articles of Association shall prevail.

Article 29 These Terms of Reference shall be published on the websites of The Stock Exchange of Hong Kong Limited and the Company, to explain the role of the Audit Committee and the powers delegated to it by the Board.

Article 30 These Terms of Reference shall be subject to the interpretation of the Board.