

# LEPU SCIENTECH MEDICAL TECHNOLOGY (SHANGHAI) CO., LTD.\*

## 樂普心泰醫療科技(上海)股份有限公司

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

(Stock Code: 2291)

### TERMS OF REFERENCE

### OF THE AUDIT COMMITTEE

#### Chapter 1 General Provisions

- Clause 1 In order to establish and regulate the audit systems and procedures of LEPU ScienTech Medical Technology (Shanghai) Co., Ltd.\* (the “**Company**”) so as to facilitate the decision making process of the board of directors (the “**Board**”) for its effective supervision of the management and to improve the corporate governance structure, the Audit Committee under the Board of the Company (the “**Committee**”) is established with these terms of reference (these “**Terms**”) in accordance with 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 (the “**Hong Kong Listing Rules**”), the Articles of Association of LEPU ScienTech Medical Technology (Shanghai) Co., Ltd.\* (the “**Articles**”) and other relevant laws, regulations and regulatory documents.
- Clause 2 The Committee is a specific committee under the Board and is mainly responsible for the coordination between internal and external auditors, supervision and inspection of their works as well as the risk management and internal control of the Company. The Committee shall be accountable for and report to the Board.
- Clause 3 These Terms shall apply to the Committee and the persons and departments governed by these Terms.

#### Chapter 2 Composition of the Committee

- Clause 4 The Committee shall consist of no less than three directors. All Committee members shall be non-executive directors, with a majority of whom being independent non-executive directors. All Committee members shall possess professional financial or legal knowledge and commercial experience necessary for the performance of their duties. At least one of the members shall have the appropriate professional qualification or accounting or related financial management expertise as required by the Hong Kong Listing Rules in respect of the qualifications of members of the audit committee.

The Board shall evaluate the independence and performance of the members of the Committee on a regular basis, and replace the member who is not suitable to remain in the position when necessary. Former partners of the external auditing firm engaged by the Company shall be prohibited from acting as a member of the Committee for a period of two years from the date of the person ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is the latter.

- Clause 5 Members of the Committee shall be nominated by the chairman of the Board, more than one-second of the independent non-executive directors or more than one-third of all directors and appointed by the Board upon approval by more than half of the directors.
- Clause 6 The Committee shall have a chairman who shall be an independent non-executive director. The chairman is responsible for taking in charge of the work of the Committee. The chairman shall be nominated by the chairman of the Board and appointed upon approval of the Board. The chairman shall have appropriate accounting qualification or relevant financial and accounting expertise.
- Clause 7 The term of office of the Committee shall be the same as that of the Board, and the term of office of a Committee member shall be the same as his/her term of office as a director. Committee members may be re-elected upon expiry of his/her term of office. If any member ceases to be a director of the Company or any member who is an independent non-executive director no longer meets relevant independence requirements as set out in the Hong Kong Listing Rules during his/her term of office, his/her membership in the Committee shall lapse automatically, and the vacancy shall be filled up by the person elected by the Board in accordance with these Terms.
- Clause 8 A Committee member may tender his/her resignation to the Board during his/her term of office by giving a resignation to explain the reason for resignation and other matters which need to be brought to the attention of the Board. If the number of members will fall below the minimum number as provided herein, the resigning member shall continue to perform his/her duties until the appointment of a new member to fill his/her place.
- Clause 9 The Committee members may be changed during their terms of office if such change is proposed by the chairman of the Board and approved by the Board after discussion.
- Clause 10 Where the composition of members of the Committee fails to satisfy the requirements specified in these Terms, the Board shall, according to the Hong Kong Listing Rules, promptly state relevant details and reasons by announcement, and fill the vacancy according to these Terms within three months from the date on which the relevant requirements fail to be satisfied. The term of office for the new member shall terminate at the end of his/her term of office as a director.
- Clause 11 With the coordination of the office of the Board, the audit department of the Company shall act as the executive body of the Committee to provide support and services and perform duties assigned by the Committee.

### Chapter 3 Responsibilities of the Committee

Clause 12 The Committee, on behalf of the Board, shall conduct independent assessment and supervision on the compliance, legality and efficiency of the operation of the Company. The primary responsibilities of the Committee include:

- (1) to make recommendations to the Board regarding the appointment, reappointment and removal of external auditors, approve the remuneration and terms of engagement of the external auditors, and deal with all matters of the resignation or dismissal of external auditors;
- (2) to review and monitor the independence and objectivity of external auditors and the effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the external auditors the nature, scope and method of the audit and reporting requirement before the audit commences.

For the purpose of independent inspection of external auditors, the Committee shall perform the followings: to consider the relationships between the Company and the auditors (including non-audit services); to obtain from the auditors annually information about maintaining its independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; to meet the external auditors at least once a year without the presence of the management of the Company for the discussion of audit fees, any issues arising from the audit and any other matters the auditor may wish to raise;

- (3) to develop and implement policies relating to the engagement of external auditors for non-audit services. For this purpose, external auditors include any entity under common control, ownership or management with the auditors or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the local or international operation of the auditors. The Committee should report to the Board, identify and make recommendations on matters where action or improvement is needed;
- (4) to monitor the integrity of the financial statements, annual reports and accounts, half-year reports and quarterly reports (if any) of the Company, and review important opinions regarding financial reporting in such statements and reports. Special attention should be paid to the risk of any frauds, malpractices and major mistakes in relation to financial statements and reports. When reviewing the annual reports and accounts, half-yearly and quarterly reports of the Company before submission to the Board, the Committee should focus on the following matters:
  1. changes in accounting policies and practices;
  2. major judgmental areas;
  3. significant adjustments resulting from audit;
  4. the going concern assumption and any qualifications;
  5. compliance with accounting standards;

6. compliance with the Hong Kong Listing Rules and other legal requirements in relation to financial reporting.
- (5) for the purpose of paragraph (4) above:
    1. the Committee members shall contact the Board and the senior management of the Company. The Committee shall have meetings with the external auditors of the Company at least twice a year;
    2. the Committee shall consider any significant and unusual items that are, or may need to be, reflected in such reports and accounts, and shall give consideration to the matters that have been raised by the staff responsible for accounting and financial reporting function, compliance officer or the auditors of the Company;
  - (6) to review the financial control, internal control and risk management system of the Company;
  - (7) to discuss with the management on risk management and internal control system to ensure that the management has performed its duty to maintain an effective risk management and internal control system. Considerations should be given to, among others, the adequacy of resources, qualifications, experience and training of staff and budgets pertaining to the accounting and financial reporting functions;
  - (8) to consider major investigation findings on risk management and internal control on its own initiative or as delegated by the Board and the management's response to these findings;
  - (9) to monitor internal audit system of the Company, to ensure that the internal audit system is implemented with sufficient resources and has appropriate standing in the Company, and to review and supervise the effectiveness of internal audit system;
  - (10) to facilitate communications between the internal audit department and the external auditors so as to coordinate their works;
  - (11) to review the financial and accounting policies and practice of the Company;
  - (12) to review the external auditor's audit letter to the management, major queries raised by the external auditors about accounting records, financial accounts or control systems and the response of the management;
  - (13) to ensure that the Board will provide a timely response to the issues raised in the external auditor's audit letter;
  - (14) to review the following arrangements of the Company: the employees of the Company can, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for the Company to conduct fair and independent investigations and to take necessary follow-up actions accordingly;

- (15) to act as the key representative for overseeing the relationship between the Company and the external auditors;
- (16) to review the risk management strategies and solutions for major risk management issues;
- (17) to verify the list of connected persons (as defined in the Hong Kong Listing Rules) of the Company; to conduct a general audit of all connected transactions and regular examination of connected transactions of the Company, including a review of the decisions on connected transactions of the Company and their implementation within ten days following the end of each half-year period, and a general review of all connected transactions of the Company within 30 days following the end of each half-year period. The Committee shall report to the Board and the board of supervisors the results of such reviews;
- (18) to assess and determine the environmental, social and governance risks of the Company, and to ensure the establishment of an appropriate and effective control system for environmental, social and governance risks and internal control system;
- (19) to report to the Board of matters required by these Terms;
- (20) to deal with other matters as authorized by the Board of the Company and as required by the relevant laws and regulations;
- (21) to perform other duties of the Committee as required by the Hong Kong Listing Rules and the listing rules of the place(s) where the securities of the Company are listed, as revised from time to time.

Clause 13 Responsibilities of the chairman of the Committee include:

- (1) to convene and preside over meetings of the Committee;
- (2) to supervise and examine the performance and implementation of resolutions of the Committee;
- (3) to sign the relevant documents of the Committee;
- (4) to report the work of the Committee to the Board of the Company;
- (5) to attend the Company's annual general meeting and answer shareholders' questions about the Committee's duties. If the chairman of the Committee is unable to attend the annual general meeting, any other member or appropriately appointed representative shall attend the meeting on his/her behalf;
- (6) to perform other duties as required or delegated by the laws and regulations, relevant regulatory requirements of the place(s) where the Company is listed (such as the Hong Kong Listing Rules), these Terms and the Board.

- Clause 14 Primary responsibilities of a Committee member include:
- (1) to attend meetings of the Committee punctually, and express opinions on the matters discussed thereon and exercise voting rights at the meetings;
  - (2) to propose an agenda for discussion at the meetings of the Committee;
  - (3) to sit in on or observe relevant meetings of the Company to conduct studies and researches by obtaining reports, documents, materials and other relevant information necessary for the performance of his/her responsibilities;
  - (4) to fully understand the responsibilities of the Committee and his/her role as a member of the Committee, acquaint himself/herself with the operation and management, business activities and development of the Company to ensure his/her capacity for the performance of responsibilities;
  - (5) to guarantee that he/she has devoted sufficient time and attention to fulfil his/her responsibilities;
  - (6) to perform other duties as delegated by laws and regulations, relevant regulatory requirements of the place(s) where the Company is listed (such as the Hong Kong Listing Rules), these Terms and the Board.

#### **Chapter 4 Meetings of the Committee**

- Clause 15 Meetings of the Committee can be classified as regular meetings and extraordinary meetings.
- Clause 16 The Committee shall hold at least two regular meetings every year, and the written notice of the meeting shall be served to all members three days prior to such meeting. One of the regular meetings shall be convened before review of the annual report by the Board every year.
- Clause 17 The Committee may convene extraordinary meetings when necessary. The chairman of the Committee shall issue a notice to convene a meeting within three days from the date of actual occurrence of any of the following circumstances:
- (1) where the Board deems it necessary;
  - (2) where the chairman of the Committee deems it necessary;
  - (3) where it is proposed by more than two members of the Committee.

The external auditors of the Company can call for an extraordinary meeting if necessary.

Clause 18 The audit department shall issue the notice of the meeting in writing to each of the Committee members and relevant persons being invited to attend the meeting three days prior to the date of the meeting (except in special circumstances where the requirement of a prior notice is exempted, provided that the chairman of the meeting shall provide explanation at the meeting). The notice of the meeting shall contain information on the form, time, venue, duration and agenda of the meeting, time of issuance of the notice, name and contact information of the contact person of the meeting and other relevant information.

The audit, finance and legal departments and the office of the Board shall prepare and furnish the Committee with relevant materials related to the matters to be discussed, and liaise with the parties involved (including relevant experts of the Company, external experts, scholars and intermediaries appointed by the Committee during a meeting).

Clause 19 Upon receipt of the notice of the meeting, all Committee members shall promptly provide confirmation and relevant replies (including but not limited to the confirmation of attendance and other arrangement) via a proper means.

Clause 20 All members of the Committee shall attend the meeting in person. If a member is unable to attend the meeting in person, such member shall, by signing and submitting a letter of proxy, authorize another member of the Committee to attend and express opinion at the meeting on his/her behalf. Such letter of proxy shall expressly state the scope and term of the authorization. Each member may appoint only one other member as his/her proxy to exercise the voting right on his/her behalf for each meeting. Where a member authorizes two or more other members to exercise the voting right on his/her behalf, such authorization shall be invalid. In addition, no member shall accept any such authorization from two or more other members concurrently.

The member attending a meeting on behalf of another member shall exercise the rights within the scope of authorization. If a member does not attend a meeting in person or authorize another member of the Committee to exercise the rights on his/her behalf, nor does he/she submit any opinion in writing prior to the meeting, he/she shall be deemed to have waived his/her rights.

A member who is unable to attend a meeting in person may also exercise his/her rights by submitting his/her opinion in writing with respect to any matter on the meeting agenda, provided that such written opinion shall be submitted to the audit department before the convening of the meeting at the latest.

Clause 21 If a member does not attend a meeting in person or authorize another member to attend such meeting on his/her behalf, nor does he/she submit any opinion in writing prior to the meeting on two consecutive occasions, or if such member fails to attend in person 3/4 of all meetings of the Committee held during any year, such member shall be deemed incapable of performing the duties of the Committee, and the Board may replace him/her in accordance with these Terms.



Clause 22 The quorum of a Committee meeting shall be the presence of more than two thirds of the Committee members. Meetings of the Committee shall be presided over by the chairman of the Committee, who may appoint another member to act on his/her behalf when he/she is unable to attend the meeting. If the chairman of the Committee neither performs his/her duties nor designates another member to act on his/her behalf, any member may report the same to the Board of the Company, and the Board shall appoint another member who is an independent non-executive director to fulfil the duties of the chairman of the Committee.

## **Chapter 5 Procedures of Meetings**

Clause 23 Each member of the Committee shall have one vote. A resolution of the meeting shall be passed by more than half of the votes of all members. In the event that the meeting fails to reach a valid resolution due to abstention of any member, the relevant matter shall be considered directly by the Board.

Clause 24 Meetings of the Committee shall be convened by way of on-site meeting, video conference or teleconference in principle. Should an on-site meeting, video conference or teleconference be unable to be held in case of emergency, force majeure or other special reasons, such extraordinary meeting can be held by means of written communication. Where a meeting is conducted by means of written communication, the Committee members shall submit to the Board their written opinions with respect to the matters to be discussed within the period prescribed by the notice of the meeting.

Clause 25 Voting at the meetings of the Committee shall be conducted by a show of hands or by poll. Where any member cannot sign the resolutions made at a telephone meeting or video meeting in real time, the said member may orally give opinions first and responsively affix the written signature thereof as soon as possible, provided that there is no discrepancy between the opinions expressed by such member subsequently in signing the written resolutions and the opinions orally expressed by him/her at the meeting.

Clause 26 All items on the agenda shall be discussed during the meeting of the Committee, and the Committee members shall explicitly, independently and fully express their opinions based on their own judgment. In the case of any different opinions, such different opinions shall be stated in the meeting minutes to be presented to the Board.

Clause 27 The Committee may invite directors, related senior management members and relevant experts of the Company, external experts, scholars, intermediary agencies and relevant persons to sit in on a meeting. Such persons being invited shall give explanation and elaboration on any issues as required by any Committee member.

Clause 28 Where it deems necessary, the Committee may, upon approval by the Board, seek for professional advice of external professional personnel or organizations. Any reasonable cost so incurred shall be borne by the Company.



Clause 29 If a member of the Committee is interested in any matter being considered by the Committee, such member shall abstain from the discussion and voting of such matter.

Clause 30 All persons attending the Committee meetings shall keep all matters discussed at the meetings confidential and shall not disclose any such information without authorization.

### **Chapter 6 Minutes and Summary of the Committee Meetings**

Clause 31 Minutes shall be kept for all meetings of the Committee, which shall be prepared by the audit department and shall contain the following information:

- (1) serial number, form, date, venue and name of the chairman of the meeting;
- (2) attendance and absence of members in person and by proxy;
- (3) name and title of each attendee;
- (4) agenda of the meeting;
- (5) main points made by the Committee members and other relevant attendees;
- (6) name of the person taking minutes;
- (7) abstention of any interested member (if any), which shall be specified in the minutes or the relevant resolutions.

All Committee members present at the meeting shall sign the minutes. The minutes shall be circulated to all committee members within a reasonable time for their comments.

Clause 32 After each meeting of the Committee, the audit department shall prepare a meeting summary recording the considerations and discussions of the meeting.

Copies of the meeting summary shall be submitted to the Board of the Company and sent to all Committee members, secretary of the Board, the audit, finance, legal departments of the Company and other relevant departments and persons.

Clause 33 Meeting minutes, meeting summary, letters of proxy, written opinions of the members of the Committee and other materials of the meeting of the Committee shall be kept by the office of the Board in accordance with relevant filing system of the Company.

## Chapter 7 Supplementary Provisions

- Clause 34 Unless otherwise stated, terms used herein shall have the same meanings ascribed to them in the Articles.
- Clause 35 For any matter not covered in these Terms, or in the event of any contradiction with any laws, administrative regulations, normative documents, relevant regulatory requirements of the listing place(s) of the Company (such as the Hong Kong Listing Rules) or the Articles as amended under lawful procedures promulgated after these Terms become effective, such laws, administrative regulations, normative documents, relevant regulatory requirements of the listing place(s) of the Company (such as the Hong Kong Listing Rules) and the Articles shall prevail. Amendments to these Terms shall be made forthwith and submitted to Board for approval.
- Clause 36 These Terms have been considered and approved by the Board, and shall become effective and applicable from the date on which the shares of the Company are first issued and listed in Hong Kong.
- Clause 37 The rights of interpretation and amendment of these Terms shall be vested in the Board of the Company.
- Clause 38 These Terms are available in both Chinese and English. In case of any discrepancy, the Chinese version shall prevail.

**LEPU ScienTech Medical Technology (Shanghai) Co., Ltd.\***  
Board of Directors

\* *The Company is a registered non-Hong Kong company as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and it is registered under its Chinese name and under the English name "LEPU ScienTech Medical Technology (Shanghai) Co., Ltd."*

\* *For identification purposes only*