# Zylox-Tonbridge Medical Technology Co., Ltd.

# TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

## 1. MEMBERSHIP

1.1 The Audit Committee should comprise a minimum of three members, all of whom should be non-executive Directors who do not hold senior management positions in the Company. The majority of the Audit Committee members must be independent non-executive Directors, and at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise.

1.2 The Audit Committee must be chaired by an independent non-executive Director and appointed by the Board. The chairman or chairwoman of the Audit Committee should be responsible for convening and presiding over meetings of the Audit Committee.

1.3 The term of office of the Audit Committee members should be the same as that of the Directors of the Board, and the members should be eligible for re-election upon expiry of their term of office. If, before the expiry of a member's term of office, a member ceases to hold office as a Director of the Company or if other circumstances render him/her unable to continue to hold office as a Director, or if a member who should be an independent non-executive Director no longer possesses the independency required by relevant laws, administrative regulations, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**") or the Articles of Association, he/she should automatically lose his/her membership and the Board should fill the number of members in accordance with these terms of reference.

## 2. SECRETARY

2.1 The Company Secretary shall act as the secretary of the Audit Committee.

2.2 The Audit Committee may from time to time, appoint any other person with appropriate qualification and experience to act as the secretary of the Audit Committee.

## 3. MEETINGS

3.1 The Audit Committee should convene at least two regular meetings a year. Extraordinary meetings may be convened upon the proposal of two or more members or if the chairman or chairwoman deems it necessary.

3.2 Notice of at least 3 days should be given for any regular meeting, and notice of any extraordinary meeting should be given within a reasonable period, unless such notification is waived by all members of the Audit Committee. Notwithstanding the notification period, the attendance of the members of the Audit Committee at the meeting would be deemed as the waiver by such members of the required notification requirement. If any follow-up meeting takes place within 7 days after the meeting, then no notification is required for such follow-up meeting.

3.3 The quorum necessary for the transaction of business of the Audit Committee shall be two-thirds or more of all members, with each member having one vote.

3.4 Meetings can be attended in person or via electronic means including telephone or videoconferencing. The members of the Audit Committee can attend the meeting via telephone or any similar communication device (all persons attending such meeting should be able to hear from such member via such communication device).

3.5 Members may vote at the meetings of the Audit Committee by a show of hands or by ballot. An extraordinary meeting may be convened by way of correspondence.

3.6 When discussing matters involving a connected relationship with an Audit Committee member at an Audit Committee meeting, the relevant connected member shall recuse themselves. An Audit Committee meeting may be held with the attendance of two-thirds or more of all unconnected members. Resolutions at the meeting require approval by half or more of the unconnected members present. If the number of unconnected members present is less than two-thirds of the total unconnected members of the Audit Committee, the matter shall be directly submitted to the Board for deliberation.

3.7 Resolutions of the Audit Committee should be passed, in the case of a meeting, by half or more of all members of the Audit Committee.

3.8 A resolution passed and signed by all members of the Audit Committee is valid, and the validity is the same as any resolution passed in the meeting held.

3.9 Full minutes of the Audit Committee meeting should be kept by a duly appointed secretary of the Audit Committee and be available for review by the Directors. Draft and final versions of minutes of the meeting should be sent to all members of the Audit Committee for their comment and records respectively, within a reasonable time after the meeting is held.

## 4. MEETING ATTENDANCE

4.1 The Audit Committee should meet with the auditor, at least once annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.

4.2 Upon the invitation from the Audit Committee, the following persons can attend the meeting: (i) financial manager (or equivalent); (ii) financial controller (or equivalent); (iii) other staff members responsible for accounting and/or internal functions; and (iv) the other Board members.

4.3 Only the members of the Audit Committee are entitled to vote in a meeting of the Audit Committee.

## 5. ANNUAL GENERAL MEETINGS

5.1 The chairman or chairwoman of the Audit Committee or (if absent) another member of the Audit Committee (who must be an independent non-executive Director) should attend the annual general meetings of the Company, and handle the shareholders' enquiries on the activities and responsibilities related to the Audit Committee at such meetings.

## 6. DUTIES AND POWERS

The Audit Committee is responsible for overseeing and monitoring the financial reporting, risk management and internal control systems of the Company, and assisting the Board to fulfill its responsibility over the audit. The Audit Committee's duties and powers should include:

### 6.1 Relationship with the Company's external auditors

6.1.1 to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any issues related to its resignation or dismissal;

6.1.2 to oversee and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

6.1.3 to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally; and

6.1.4 to report to the Board and make recommendations on any matters where action or improvement is needed.

**6.2 Review of the Company's financial information**

6.2.1 to monitor the integrity of the Company's financial statements and annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the committee should focus particularly on:

(a) any changes in accounting policies and practices;

(b) major judgmental areas;

(c) significant adjustments resulting from audit;

(d) the going concern assumptions and any qualifications;

(e) compliance with accounting standards; and

(f) compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting;

6.2.2 regarding paragraph 6.2.1 above:

(a) members of the Audit Committee should liaise with the Board and senior management and the audit committee must meet, at least twice a year, with the Company's external auditors; and

(b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer external auditors.

**6.3 Oversight of the Company's financial reporting system, risk management and internal control system**

6.3.1 to monitor the Company's financial controls, and unless expressly addressed by a separate risk committee of the Board, or by the Board itself, to monitor the Company's risk management and internal control systems;

6.3.2 to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions;

6.3.3 to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to such findings;

6.3.4 to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to oversee and monitor its effectiveness;

6.3.5 to monitor the Group's financial and accounting policies and practices;

6.3.6 to review the external auditors' management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of risk management and control and management's response;

6.3.7 to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;

6.3.8 to act as the key representative body for overseeing the Company's relationship with the external auditor;

6.3.9 to oversee arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

6.3.10 to report to the Board on the matters in the code provisions under Appendix C1 of the Hong Kong Listing Rules;

6.3.11 to consider other topics, as defined by the Board; and

6.3.12 where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

**6.4 Performing the Company's corporate governance functions**

6.4.1 to develop and monitor the Company's policies and practices on corporate governance and make recommendations to the Board;

6.4.2 to oversee and monitor the training and continuous professional development of Directors and senior management of the Company;

6.4.3 to oversee and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

6.4.4 to develop, oversee and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and

6.4.5 to monitor the Company's compliance with the code and disclosures in the Corporate Governance Report of the Company.

## 7. REPORTING

7.1 The Audit Committee shall report to the Board after each of its meetings.

## 8. AUTHORITY

8.1 The Board should authorize the Audit Committee to inspect all accounts, reports and records of the Company.

8.2 In order to fulfill its duties, the Audit Committee is eligible to request the management of the Company to provide information relating to the financial status of the Company, its subsidiaries and associates.

8.3 The Audit Committee should have access to independent professional advice at the Company's expense if necessary, to perform the responsibilities of the Audit Committee.

8.4 The Audit Committee should be provided with sufficient resources to perform its duties.

## 9. SUPPLEMENTARY PROVISIONS

9.1 The term "above" referred to in these terms of reference shall include the numeral referred thereto.

9.2 The right to interpret these terms of reference shall reside with the Board.

(If there is any inconsistency between the English and Chinese versions of this document, the Chinese version shall prevail.)