

Medcaptain Medical Technology Co., Ltd.
Terms of Reference for the Audit Committee of the Board

Chapter 1 General Provisions

Article 1 In order to strengthen the decision-making function of the Board, to conduct audit in advance and professional audit so as to ensure effective supervision of the Board on senior management and to improve the corporate governance structure of Medcaptain Medical Technology Co., Ltd. (hereinafter referred to as the “Company”), the Company has established the Audit Committee of the Board and formulated these Terms of Reference in accordance with the Company Law of the People’s Republic of China (hereinafter referred to as the “Company Law”), the Securities Law of the People’s Republic of China, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Hong Kong Listing Rules”) and other relevant laws, regulations, provisions and rules, and the Articles of Association of Medcaptain Medical Technology Co., Ltd. (hereinafter referred to as the “Articles of Association”) and other relevant provisions.

Article 2 The Audit Committee of the Board is a specialised working body established by the Board pursuant to a resolution of the shareholders’ general meeting. Its main responsibilities are to carry out liaison, supervision and review in connection with the internal and external audit of the Company.

The internal audit department established by the Company shall be accountable to the Board and report to the Audit Committee.

Article 3 The provisions of the Company Law, the Articles of Association and the Hong Kong Listing Rules in relation to the obligations of the directors shall apply to the members of the Audit Committee.

Chapter 2 Composition

Article 4 The Audit Committee shall comprise at least three non-executive directors who do not hold senior management positions in the Company. Independent non-executive directors shall constitute a majority of the Committee members. Committee members shall possess appropriate professional knowledge and business experience in finance, law, or other relevant areas compatible with the duties, and at least one member shall possess appropriate professional qualifications, or accounting or related financial management expertise, so as to meet the requirements applicable to financial professionals on Audit Committees under the securities regulatory rules of the place where the Company’s shares are listed.

Article 5 Members of the Audit Committee shall be nominated by the chairman of the Board, more than one half of the independent non-executive directors or one third of all directors, and shall be elected by the Board. Subject to the Hong Kong Listing Rules, a former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of its Audit Committee for a period of two years from the date of the person ceasing: (1) to be a partner of the firm; or (2) to have any financial interest in the firm, whichever is later.

Article 6 The Audit Committee shall have one chairman (convener), who shall be an independent non-executive director with accounting or related financial management expertise and shall be responsible for chairing the work of the Committee. The chairman shall be elected from among the members of the Audit Committee and shall be appointed with the approval of the Board.

Article 7 The Audit Committee shall have the same term of office as that of the Board. A member may be re-elected upon the expiry of his/her term of office. If any member ceases to be a director of the Company during the term of office, he/she should automatically cease to be a member of the Committee, and the Committee shall fill the vacancy in accordance with Articles 4 to 6 above.

Article 8 The Audit Committee shall establish an internal audit department which is a daily operation institution responsible for the communication of daily work and the organisation of meetings, etc.

Chapter 3 Duties and Authorities

Article 9 The main duties and authorities of the Audit Committee are as follows:

(1) To supervise and evaluate external auditor's work

1. to be primarily responsible for making recommendations to the Board on the appointment, re-appointment, replacement and removal of the external auditor, and to make recommendations to the Board regarding the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences. The Audit Committee shall meet with the external auditor at least once a year in the absence of management; and
3. to develop and implement policy on engaging the 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. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

(2) To provide guidance on internal audit work

1. to review the Company's annual internal audit work plan;
2. to supervise the implementation of the Company's internal audit plan;
3. to review the internal audit work reports, evaluate the results of internal audit work and supervise the rectification of material issues;
4. to guide and monitor the effective operation of the internal audit department;

5. to ensure the internal audit function is adequately resourced, and has appropriate standing within the Company, and to review and monitor its effectiveness; and
6. to make recommendations on the appointment or removal of the person-in-charge of the Company's internal audit department.

The internal audit department of the Company shall report its work to the Committee. The internal audit department shall submit to management and the Committee concurrently all types of audit reports, rectification plans for audit issues and the status of rectification.

(3) To review the Company's financial information

To monitor the truthfulness, completeness and accuracy of the Company's financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them, with particular attention to the possibility of fraud, misconduct or material misstatement relating to the financial statements and reports. For this purpose, when the Committee submits the relevant statements and reports to the Board, it shall focus particularly on:

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

Regarding paragraph (3) above, members of the Committee should liaise with the Board and senior management of the Company. The Audit Committee must meet, at least twice a year, with the Company's external auditors; and the Committee should consider any significant or unusual matters that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matter that has been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or external auditors.

- (4) To evaluate the effectiveness of internal control, examine and supervise the effective operation of the financial reporting system, internal control system and risk management system of the Company
1. to review the Company's financial controls, internal control systems and risk management systems;
 2. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the issuer's accounting and financial reporting function;
 3. to supervise the effective implementation of internal control and the self-evaluation of internal control, coordinate internal control audit, supervise the rectification of internal control deficiencies and other related matters, and report to the Company; to review the financial and accounting policies and practices of the Company and the Group;
 4. to reviewing the internal control audit report issued by the external auditors, and communicate with the external auditor on issues identified and corresponding improvement measures; 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 these findings;
 5. to ensure the coordination between the internal and external auditors, and to review and monitor whether the internal audit function is effective;
 6. to review the external auditor management letter, any material queries raised by the external auditors to the management about accounting records, financial accounts, risk management or control systems and the management's responses;
 7. to ensure the Board will provide a timely response to issues raised in the external auditor's management letter; and
 8. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters under confidential circumstances. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action.

- (5) To be responsible for the communications among management, the internal audit department and the relevant departments with the external audit firm
 - 1. to coordinate communication between management and the external auditor on material audit issues;
 - 2. to coordinate communication between the internal audit department and external auditor and to cooperate with the work of the external auditors; and
 - 3. to act as the key representative body for overseeing the Company's relations with the external auditor.
- (6) To report to the Board on the matters set out above and other matters set out in Code Provision D.3.3 of Appendix C1 to the Hong Kong Listing Rules, as amended from time to time, and to report back to the Board on the decisions or recommendations made by the Committee, unless legal or regulatory restrictions prevent it from doing so.
- (7) To be responsible for supervising and improving the principles, structure and system of corporate governance, including:
 - 1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
 - 2. to review and monitor the training and continuous professional development of directors and senior management;
 - 3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
 - 4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
 - 5. to review the Company's compliance with the Corporate Governance Code in Appendix C1 to the Hong Kong Listing Rules and disclosure in the Corporate Governance Report.
- (8) To exercise the powers of the supervisory committee as stipulated by the Company Law; and
- (9) Other matters as required by laws, regulations, listing rules of the stock exchange at the place(s) where the securities of the Company are listed and as conferred by the Board.

Article 10 The following matters shall be submitted to the Board for consideration only after being approved by more than one half of all members of the Audit Committee:

- (1) disclosure of financial information in financial accounting reports and periodic reports, and internal control evaluation reports;
- (2) appointment or dismissal of the accounting firm that undertakes the audit work of the listed company;
- (3) appointment or dismissal of the financial controller of the listed company;

- (4) making changes in accounting policies, accounting estimates, or correction of major accounting errors, for reasons other than changes in accounting standards; and
- (5) other matters as stipulated by laws, administrative regulations, requirements of the China Securities Regulatory Commission, the securities regulatory rules of the place(s) where the Company's shares are listed, and the Articles of Association.

Article 11 Main duties of the chairman of the Committee are:

- (1) to convene and preside over meetings of the Committee;
- (2) to supervise and examine the work of the Committee;
- (3) to sign relevant documents of the Committee;
- (4) to report the work of the Committee to the Board of the Company; and
- (5) to perform other duties and responsibilities prescribed by laws, administrative regulations, securities regulatory rules of the place where the Company's shares are listed, these Terms of Reference and as required or conferred by the Board.

Article 12 The primary duties of the members of the Committee shall include the following:

- (1) to attend meetings of the Committee as scheduled, express opinions on matters for discussion at the meetings, and exercise voting rights;
- (2) to suggest topics for discussion at the meetings of the Committee;
- (3) to attend or sit in the relevant meetings of the Company, conduct investigation and research, and obtain relevant information required for the performance of their duties, including reports, documents and materials;
- (4) to fully understand the duties and responsibilities of the Committee and his/her own duties as a member of the Committee, and beware of the Company's conduct, business activities and development relating to his/her duties, so as to ensure he/she is able to perform his/her duties and responsibilities;
- (5) to devote sufficient working time and effort to perform his/her duties and responsibilities; and
- (6) to perform other duties and responsibilities as required or conferred by laws, administrative regulations, the securities regulatory rules in the place(s) where the shares of the Company are listed, these Terms of Reference and the Board.

Article 13 The Audit Committee shall be responsible for supervising the audit activities. When the Audit Committee performs its duties, the relevant departments of the Company shall cooperate with it; where necessary, the Audit Committee may engage intermediary agencies to provide professional advice, and the relevant expenses shall be borne by the Company.

Article 14 When exercising its duties and powers, the Audit Committee shall comply with the relevant provisions of the Company Law, the securities regulatory rules of the place(s) where the Company's shares are listed, the Articles of Association and these Terms of Reference, and shall not prejudice the interests of the Company and its Shareholders.

Chapter 4 Decision-making Procedures

Article 15 The internal audit department shall be responsible for the preliminary preparation work for the decision-making of the Audit Committee, and the provision of written information to the Company in the following areas:

- (1) relevant financial reports of the Company;
- (2) the work reports of internal and external auditors;
- (3) external audit contracts and relevant work reports;
- (4) information disclosed publicly by the Company;
- (5) audit reports on major connected transaction agreements of the Company; and
- (6) other relevant matters.

Article 16 Meetings of the Audit Committee shall review the reports provided by the internal audit department, and submit the relevant written resolution materials to the Board for discussion, including:

- (1) evaluation of the work of the external auditors, the appointment and replacement of the external auditors;
- (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 financial reports and other information publicly disclosed by the Company are objective and true, and whether the Company's material connected transactions comply with the relevant laws and regulations;
- (4) evaluation of the work of the Company's finance department and internal audit department, including their persons-in-charge; and
- (5) other relevant matters.

Chapter 5 Rules of Procedure

Article 17 Meetings of the Audit Committee are classified into regular meetings and extraordinary meetings, which shall be convened and chaired by the convener of the Audit Committee. If the convener of the Audit Committee is unable or refuses to perform his/her duties, he/she shall designate a member who is an independent non-executive director to perform such duties on his/her behalf; 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 relevant situation to the Board, and the Board shall designate a member to perform the duties of the chairman of the Committee.

Article 18 The Audit Committee shall convene at least two meetings each year. Notice of a meeting shall be given to all members 3 days before the meeting is convened. The Audit Committee may convene extraordinary meetings as needed. Notice of an extraordinary meeting shall be given to all members 3 days before the meeting, except that in case of emergency, notice may be given at any time. An extraordinary meeting may be convened when proposed by two or more members of the Audit Committee, or when the convener of the Audit Committee considers it necessary.

Article 19 Members of the Audit Committee may attend the meeting in person, or may authorize other members in writing to attend the meeting and exercise voting rights on their behalf.

Where a member of the Audit Committee authorizes another member to attend the meeting and exercise voting rights on his/her behalf, he/she shall submit a power of attorney to the chairman of the meeting, which shall set out the scope of authorisation. The power of attorney shall be submitted to the chairman of the meeting no later than the commencement of voting at the meeting.

Article 20 Where a member of the Audit Committee neither attends the meeting in person nor authorizes another member to attend the meeting on his/her behalf, he/she shall be deemed to have failed to attend the relevant meeting.

If a member of the Audit Committee fails to attend the meetings for two consecutive times, he/she shall be deemed to be unable to properly perform his/her duties and powers, and the Board of the Company may revoke his/her position as a member.

Article 21 Meetings of the Audit Committee shall be held only when attended by two-thirds or more of the members; each member shall have one vote; resolutions made at the meeting must be passed by more than half of all members. Where valid deliberation opinions cannot be formed due to the abstention of members of the Audit Committee, the relevant matters shall be directly considered by the Board.

Article 22 Voting at the meetings of the Audit Committee shall be conducted by a show of hands or by poll; extraordinary meetings may be convened by way of voting by telecommunication.

Article 23 The internal audit department of the Company shall report the status of the internal audit work and the issues identified to the Audit Committee. The person-in-charge of the internal audit department of the Company shall attend the meetings of the Audit Committee. Where necessary, the Audit Committee may invite other directors, senior management and other relevant personnel of the Company to attend the meetings, provide information or express their views, provided that non-members of the Audit Committee shall not have voting rights on the resolutions.

Article 24 When the Audit Committee considers it necessary, it may invite representatives of external audit institutions, internal audit personnel, financial personnel, legal advisors and other relevant personnel to attend the Committee meetings and provide necessary information.

Article 25 The Audit Committee shall be provided with sufficient resources to perform its duties. Where necessary, the Audit Committee may engage intermediary agencies to provide professional advice for its decision-making, and the expenses shall be borne by the Company.

Article 26 The convening procedures, voting methods and proposals passed at the meetings of the Audit Committee must comply with the provisions of the relevant laws, regulations, the Listing Rules of the stock exchange(s) of the place(s) where the shares of the Company are listed, the Articles of Association and these Terms of Reference.

Article 27 The matters considered and the resolutions reached at the meetings of the Committee shall be recorded in sufficient detail, including the names of the persons attending the meetings and any concerns raised and/or dissenting views expressed by the members of the Committee. Draft and final versions of the minutes of the meetings shall be sent to all directors within a reasonable time after the meetings, with the draft minutes for directors to express their opinions and the final versions for their records. The directors of the Company may inspect the minutes of the meetings at reasonable times upon reasonable notice.

The minutes of the Audit Committee meetings shall be kept by the secretary to the Board as corporate archives for a period of ten years during the existence of the Company.

Article 28 The resolutions passed and the voting results at the Audit Committee meetings shall be reported to the Board of the Company in writing.

Article 29 All members attending the meetings shall have a confidentiality obligation in respect of the matters discussed at the meetings, and shall not disclose the relevant information without authorisation.

Article 30 The Audit Committee shall issue written assessment opinions on the effectiveness of the internal control of the Company based on the internal control evaluation report and relevant data submitted by the internal audit department, and report to the Board. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company shall include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and the reason(s) why the Board has taken a different view.

Article 31 Where a member of the Audit Committee has an interest in the matters discussed at the meeting, he/she shall abstain from voting.

If, after the abstention of the interested member(s), the number of members attending the meeting falls below the quorum specified in these Working Rules, all members (including the interested member(s)) shall resolve on procedural matters such as submitting the proposal to the Board of the Company for consideration, and the Board of the Company shall consider such proposal.

Article 32 If invited by the chairman of the Board, the chairman of the Audit Committee, or in his/her absence another member of the Audit Committee or his/her duly appointed delegate, shall attend the annual general meeting of the Company on behalf of the Audit Committee and be available to answer questions raised at the meeting.

Article 33 The Audit Committee shall make available its terms of reference, explaining its role and the authority delegated to it by the board by including them on the website of The Stock Exchange of Hong Kong Limited and the website of the Company.

Chapter 6 Supplementary Provisions

Article 34 Matters not covered by these Terms of Reference shall be implemented in accordance with national laws, regulations, normative documents, the securities regulatory rules of the place(s) where the Company's shares are listed and the Articles of Association. In the event of any inconsistency between these Terms of Reference and relevant laws, regulations, normative documents, the securities regulatory rules of the place(s) where the Company's shares are listed or the Articles of Association, such laws, regulations, other normative documents, the listing rules of the stock exchange(s) in the place(s) where the Company's shares are listed and the Articles of Association shall prevail.

Article 35 The Terms of Reference shall be interpreted and amended by the Board.

Article 36 These Terms of Reference shall take effect and be implemented from the date on which the H shares issued by the Company are listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited, upon consideration and approval by the Board.

Medcaptain Medical Technology Co., Ltd.

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