

SHENZHEN EDGE MEDICAL CO., LTD.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CHAPTER I GENERAL PROVISIONS

Article 1 In order to strengthen the decision-making function of the Board of Directors (the “**Board of Directors**”) of Shenzhen Edge Medical Co., Ltd. (the “**Company**”), continue to improve the construction of its internal control system, ensure the effective supervision and management of the Board of Directors, and continuously enhance its corporate governance structure, the Company hereby has established the Audit Committee of the Board of Directors by a resolution of the Board of Directors 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 (the “**Listing Rules**”), the Corporate Governance Code as set out in Appendix C1 to the Listing Rules, Guidelines for Effective Audit Committees of the Hong Kong Institute of Certified Public Accountants and other relevant laws, regulations, normative documents and the Articles of Association of Shenzhen Edge Medical Co., Ltd. (the “**Articles of Association**”) applicable after the issuance of H Shares, and formulated the Terms of Reference of the Audit Committee of the Board of Directors of Shenzhen Edge Medical Co., Ltd. (the “**Terms of Reference**”) by taking into account the actual conditions of the Company.

Article 2 The Audit Committee of the Board of Directors is a specialized working body under the Board of Directors of the Company, which is principally responsible for reviewing the financial position of the Company, reviewing the financial information of the Company, making judgments on the authenticity, completeness and accuracy of the financial information, examining the implementation and effectiveness of the internal control systems. It is also mainly responsible for the communication between the Company and the external auditors and the supervision and verification of such communication, supervision of the internal audit, evaluation and improvement of the Company’s internal control systems, and making recommendations in this regard, and assessing the risks of, among others, the Company’s major investment projects in progress. The Audit Committee of the Board of Directors shall report to the Board of Directors on its work.

CHAPTER II COMPOSITION

Article 3 The Audit Committee shall consist of at least three directors, the total number of members of the Committee shall be an odd number, all members shall be non-executive directors, the majority (more than half) of the members shall be independent non-executive directors, and the chairperson of the Audit Committee shall be an independent non-executive director.

The members of the Audit committee shall possess relevant expertise or practical experience in finance, accounting, auditing and/or legal affairs. At least one of the members of the Audit Committee shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the provisions of Rule 3.10(2) of the Listing Rules.

The partner of the current external audit firm engaged by the Company shall be prohibited from serving as a member of the Audit Committee within two years from the date on which he/she ceases to be a partner of such audit firm or ceases to have any financial interests in such external audit firm, whichever is later.

Article 4 The chairperson and other members of the Audit Committee (collectively referred to as the “**members**”) shall be nominated by the chairperson of the Board of Directors, more than half of the independent non-executive directors or more than one-third of all the directors, and shall be elected by the Board of Directors. But independent non-executive directors elected by the Company as financial professionals shall be automatically admitted to candidates without nomination. Where there is only one independent non-executive director as financial professional, he/she shall be automatically elected.

Article 5 The Audit Committee shall have a convener, i.e. the chairperson of the committee, who shall be an independent non-executive director and appointed by the Board of Directors to be responsible for presiding over the work of the committee. In the event that the chairperson of the committee is incapable of performing or not performing his/her duties, an independent non-executive director shall be jointly elected by more than half of the members of the committee to act in his/her stead.

Article 6 The term of office of the Audit Committee shall be the same as that of the Board of Directors. A member shall be eligible for re-election upon the expiration of his/her term of office. If a member ceases to be a director of the Company during the term of office, or a member who shall be an independent non-executive director ceases to be independent as required under the provisions of the Articles of Association and the Listing Rules, he/she shall be automatically disqualified as a member. A member of the Audit Committee may submit a resignation report in writing to the Board of Directors prior to the expiration of his/her term of office to resign as a member of the committee from his/her existing position. The resignation report shall contain necessary explanations on the reasons for resignation and the matters that need to be brought to the attention of the Board of Directors of the Company. If the composition of the Audit Committee fails to comply with Articles 3 and 5 as set out in these Terms of Reference, the Board of Directors shall promptly issue an announcement in accordance with the requirements of the Hong Kong Listing Rules to disclose the details of and reasons for such non-compliance. The Board of Directors shall, within three months from the date of failure to meet the requirements stipulated above, fill the vacancy in accordance with Articles 3 to 5 as set out in these Terms of Reference. The term of office of any member who fills the vacancy shall last until the end of the term of office of such member as a director. A member shall not be removed from his/her duty without cause prior to the expiration of his/her term of office, unless he/she is prohibited from holding office under the provisions of the Company Law, the Articles of Association or the Listing Rules.

Article 7 Apart from the directors’ remuneration and reimbursement, no members of the Audit Committee shall directly or indirectly receive any consulting fee, advisory fee or other remuneration from the Company in connection with his/her service as a member of the Audit Committee.

CHAPTER III DUTIES AND AUTHORITIES

Article 8 The Audit Committee shall make available these Terms of Reference on the websites of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) and the Company, explaining its role and the authority delegated to it by the Board of Directors. The specific duties of the Audit Committee include:

- (i) to conduct an annual review of the performance of the external audit firm, submit a summary report to the Board of Directors on the Company’s audit work of the external audit firm engaged during the year, and make recommendations to the Board of Directors on the appointment, re-appointment and dismissal of the external audit firm, and the remuneration and terms of engagement of the external audit firm in the coming year, and to handle any relevant matters relating to the resignation or dismissal of the external audit firm. Where the Board of Directors of the Company disagrees with the opinion of the Audit Committee on the matters of selection, engagement, resignation or dismissal of the external audit firm, the Company shall include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and the reasons why the Board of Directors of the Company holds different opinions;
- (ii) to act as the Company’s representative in liaising with the external audit firm, to be responsible for the communication between the Company’s internal audit department and the external audit firm, including reviewing and monitoring the independence and objectivity of the external audit firm and the effectiveness of the audit procedures in accordance with the applicable standards; and, prior to the commencement of the audit procedures, discuss with the external audit firm about the nature, scope, methods and reporting responsibilities of the audit for the year, and negotiate with the external audit firm to determine the schedule of auditing the financial report for the year, as well as procure the external audit firm to issue the audit report within the predetermined timeframe and so forth. If more than one external audit firms are involved in the audit, the committee shall make sure they coordinate with each other;
- (iii) to formulate and implement, in accordance with the operational needs, policy on the provision of non-audit services by the external audit firm (including its affiliates). The Audit Committee shall report and make recommendations to the Board of Directors if any actions or remedial measures are considered necessary;

For this purpose, the affiliates of the external audit firm shall include any entity that is under common control, management or ownership with the external audit firm engaged by the Company or any entity that an informed third party reasonably knowing all relevant information would reasonably conclude to be part of the domestic or international business of the external audit firm engaged by the Company. The Audit Committee shall ensure that the provision of non-audit services by the external audit firm will not compromise its independence or objectivity. In terms of non-audit services, the Audit Committee shall consider the following matters:

1. in terms of skills and experience, whether the relevant external audit firm is suitable for providing non-audit services;

2. whether pre-cautions are taken to ensure that the external audit firm's objectivity and independence in auditing will not be influenced by their provision of such services;
3. the nature and relevant fee level of the non-audit services, as well as separate and lump sum fee of the services provided by such external audit firm; and
4. the standard for determining auditors' remuneration.

The Audit Committee shall report to the Board of Directors on the actions or improvements it deems necessary, and make recommendations on possible measures to be taken;

- (iv) to review the Company's accounting policies, financial position, financial reporting procedures and financial controls; to review the integrity, accuracy and fairness of the Company's financial statements, quarterly reports (if any), interim reports and annual reports and accounts, and to review material opinions on the relevant financial reporting contained therein, as well as the disclosure of the Company's financial information. Before submitting relevant statements and reports to the Board of Directors, the review shall focus particularly on the following matters: any changes in accounting policies, and estimates of the Company during the reporting period; any issue involving significant judgments; such significant adjustments to be made as requested by the external audit firm upon completion of audit; the going concern assumptions or any qualified opinions; and whether the financial accounting complies with accounting standards and provisions relating to financial reporting under the Company Law and the Listing Rules as well as other applicable laws and regulations;

Regarding the above items which require particular focus in the review process, the members of the Audit Committee shall communicate with the Board of Directors, senior management and internal audit department and external audit firm in a timely manner. The members of the Audit Committee shall meet, at least twice a year, with the external audit firm without the attendance of any executive directors (except for those invited by the Audit Committee). The members of the Audit Committee shall consider any material or unusual matters reflected or required to be reflected in the Company's reports and accounts, and give due consideration to matters raised by the accounting and financial department of the Company, regulatory departments or auditors;

- (v) to discuss questions and doubts raised by the external audit firm upon its completion of reviewing the interim accounts and auditing the annual accounts of the Company and any other matters that the external audit firm may wish to discuss (in the absence of management if necessary);
- (vi) to examine the financial policies, internal audit systems, internal control systems and risk management systems of the Company and provide opinions and recommendations for improvements, and also:
 1. to examine the Company's financial and accounting policies and practices and any relevant changes;
 2. to monitor the preparation process of the periodic financial reports, including quarterly reports (if any), interim financial reports and annual financial reports, and review the periodic financial reports, financial results announcements and other relevant information;

3. to discuss with the management and assess the effectiveness of the financial control, internal control and risk management systems, so as to ensure that the management has performed its duties in establishing effective financial control, internal control and risk management systems; such discussions shall cover the adequacy of resources, employees' qualifications and experience in relation to the Company's accounting and financial reporting function, as well as the sufficiency of training programs received by such employees and the budget in relation to the Company's accounting and financial reporting function. If the annual report contains any statement about the internal control systems of the Company, the Audit Committee shall review the statement before submitting it to the Board of Directors for approval;
4. to consider major investigation findings on internal control matters and relevant measures taken by the management on its own initiative or as delegated by the Board of Directors;
5. to ensure co-ordination between the audit department of the Company and the external audit firm; and also to ensure that the audit department of the Company is adequately resourced and has appropriate authorities and standing within the Company, and to review and monitor the effectiveness of the Company's audit department;
6. to review the operating, financial and accounting policies and practices of the Company and its subsidiaries, as appropriate in the future;
7. to review the letter of examination or management proposals issued by the external audit firm, material queries raised by the external audit firm on accounting records, financial accounts or control systems, and the management's responses to such queries;
8. to set up, jointly with the Board of Directors, the Company's policies relating to the engagement of employees and former employees of the external audit firm and monitor the implementation of such policies. The Audit Committee shall consider whether the relevant circumstances would impair or seem to impair the external audit firm's judgment or independence regarding the audit;
9. to act as the key representative between the Company and the external audit firm and oversee their relationship;
10. to ensure the Board of Directors' timely response to the letter of examination or management proposals issued by the external audit firm to the management;
11. to formulate and review the policies and practices on corporate governance of the Company and make recommendations to the Board of Directors;
12. to review and monitor the training and continuous professional development of the directors and senior management;
13. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

14. to supervise the work of the internal audit department of the Company and provide opinions and recommendations on the appraisal and change of persons in charge of the internal audit department of the Company;
 15. to monitor the potential or possible improprieties by the Company's staff in financial reporting, internal control or other matters;
 16. to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report;
 17. to report relevant matters related to the above to the Board of Directors and to consider other matters as arranged by the Board of Directors; and
 18. to report to the Board of Directors the matters specified in the Corporate Governance Code under Appendix C1 to the Listing Rules and the Code Provision C3.3 of the Corporate Governance Code.
- (vii) the Audit Committee shall establish relevant procedures to ensure fair and independent investigation and resolution of the following matters:
1. to receive and deal with known complaints on accounting, internal control or audit of the Company, and guarantee confidentiality of such complaints;
 2. to receive and deal with open or anonymous complaints made by employees on possible improprieties in accounting, audit, internal control or other matters, and guarantee confidentiality of such complaints. To review the procedures that the Company's employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action by the Company;
- (viii) to advise and ensure that the Board of Directors takes effective remedial measures for the Company's failure to comply with the requirements of the Listing Rules regarding the establishment of the Audit Committee.
- (ix) to complete other tasks assigned by the Board of Directors.
- (x) to perform other duties as required by laws, regulations, normative documents, regulatory bodies such as Hong Kong Stock Exchange and The Securities and Futures Commission of Hong Kong, as well as the Articles of Association and the rules of procedures of the Board of Directors.

The senior management and relevant departments of the Company shall be cooperative and supportive to the Audit Committee and shall actively provide relevant information. The finance department shall regularly and faithfully provide financial and accounting information including financial reports and capital operation reports to the Audit Committee, report significant business operating activities in a timely manner, actively cooperate with the Audit Committee's work, and carefully follow up on the recommendations provided, and requests made, by the Audit Committee.

Article 9 The Audit Committee shall be accountable to the Board of Directors and proposals of the Audit Committee shall be submitted to the Board of Directors for its consideration and decision regularly. The Audit Committee shall cooperate with the Supervisory Committee for supervisory audit activities.

Article 10 The main terms of reference of the chairperson of the Audit Committee are:

- (i) to convene and preside over the meetings of the Audit Committee;
- (ii) to preside over the daily operation of the Audit Committee;
- (iii) to review and sign the reports of the Audit Committee and other important documents;
- (iv) to inspect the implementation of the resolutions and recommendations of the Audit Committee;
- (v) to report to the Board of Directors on behalf of the Audit Committee;
- (vi) to perform such other duties as shall be performed by the chairperson of the Audit Committee.

CHAPTER IV WORKING PROCEDURES

Article 11 The audit department, which is responsible for the Company's internal audit, is under the direct supervision of the Audit Committee, and is the daily working body of the Audit Committee.

Article 12 The audit department is in charge of the preliminary preparation for the decision making of the Audit Committee. It provides the following written materials of the Company:

- (i) relevant financial reports of the Company;
- (ii) the work reports of internal audit department and external audit firm;
- (iii) external audit contracts and relevant work reports;
- (iv) disclosure of information to the public by the Company;
- (v) the Company's related (connected) transactions agreements, audit reports on major related (connected) transactions and feedback on the investigation of related (connected) persons;
- (vi) financial and legal information about major investment projects;
- (vii) relevant work reports on the Company's internal control systems and their implementation;
- (viii) other relevant information.

The Audit Committee performs the main duties under Article 8 of the Terms of Reference based on the information provided by the daily working body.

Article 13 The working manner of the Audit Committee:

- (i) During the meetings of the Audit Committee, the Audit Committee discusses the work plans for proceeding with internal audit, listens to the work reports made by the Company's finance department, comments on the reports provided by the audit department, and reviews the quarterly (if any), interim and annual financial reports of the Company, etc. The Audit Committee may make decisions based on the opinions of experts from professional institutions and submit the matters that require to be decided by the Board of Directors to the Board of Directors for discussion, which mainly include:
 - 1. the evaluation of work conducted by the external audit firm, the appointment and change of the external audit firm, approval of the remuneration and appointment terms for the external audit firm;
 - 2. whether the Company's internal control systems and internal audit systems have been effectively implemented, and whether its financial reports are complete and true;
 - 3. whether the information disclosed to the public by the Company (including the financial reports) is objective and true, and whether the major related (connected) transactions of the Company are in compliance with the provisions of relevant laws and regulations;
 - 4. evaluation of the work of the Company's finance department, the audit department and their respective persons in charge;
 - 5. other relevant matters;
- (ii) In the preparation and the disclosure of the Company's annual financial reports, the Audit Committee shall follow the following working rules and procedures:
 - 1. to negotiate and determine the schedule of the audit work of a financial year with the external audit firm which is responsible for the audit of the Company's financial report of that year (the "**Annual Audit CPA**") in a timely manner after the end of that financial year;
 - 2. to procure the submission of the audit reports by the Annual Audit CPA within the predetermined time limit;
 - 3. to review the financial accounting statements prepared by the Company before the Annual Audit CPA commences its work;
 - 4. to review the financial accounting statements of the Company after the Annual Audit CPA has issued its preliminary audit opinion;
 - 5. to convene meetings of the Audit Committee to review the financial reports, make recommendations for the re-appointment or replacement of the Annual Audit CPA for the following year, and compile a report summarizing the audit work engaged by the Annual Audit CPA for the current financial year.

The chairperson of the Audit Committee or (if the chairperson is absent) another member of the Audit Committee (who must be an independent non-executive director) shall attend the annual general meeting of the Company and respond to the enquiries from shareholders regarding activities and responsibilities of the Audit Committee.

CHAPTER V RULES OF PROCEDURE

Article 14 Meetings of the Audit Committee are classified as regular meetings and extraordinary meetings.

Regular meetings of the Audit Committee shall be held at least twice a year, or once semi-annually, and shall be convened before the regular meetings of the Board of Directors, for discussing the opinions and recommendations to be submitted to the Board of Directors. The interim and annual financial statements of the Company shall be reviewed and discussed at the two meetings of the Audit Committee convened each year.

The chairperson of the Audit Committee may convene an extraordinary meeting at his/her own discretion or at the request of the independent accountants or internal audit department. An extraordinary meeting may also be convened upon the proposal submitted by more than half of the members or proposed by the chairperson of the Board of Directors.

Article 15 The meetings of the Audit Committee shall be convened by the chairperson of the Audit Committee and notices of the meetings should be signed by the chairperson of the Audit Committee. Notices of meetings, and materials for meetings shall be delivered to all members of the Audit Committee three days prior to the meetings. Upon unanimous consent of all members of the Audit Committee, the requirement for such prior notice period may be exempted.

Article 16 The meetings of the Audit Committee shall presided by the chairperson of the Audit Committee. If the chairperson of the Audit Committee is unable to attend, he/she may entrust another member (who shall be an independent non-executive director) to preside over the meeting. Extraordinary meetings shall not be subject to the above time limit for notice.

Article 17 The quorum of meetings of the Audit Committee shall be at least two-thirds of the members, including at least one independent non-executive director. If a member is unable to attend, he/she may by a written power of attorney appoint another member to attend and vote at the meetings on his/her behalf. The power of attorney shall set out the name of the proxy, the matters delegated, scope of authorization and the validity period, and shall be signed or stamped by the appointer and submitted to the presider of the meetings no later than the time when voting takes place in the meetings.

The resolutions made at the meetings of the Audit Committee shall be approved by a majority of all members, and relevant resolutions or opinions shall be signed by the members of the Audit Committee who attend the meetings. Each member shall have one vote and may vote “for”, “against” or “abstain” from voting on a given matter. Where the respective votes for and against a resolution are equal in number, the chairperson of the Audit Committee shall have a casting vote.

Article 18 Meetings of the Audit Committee may be held by on-site meetings, tele conferences, video conferences, circulation of documents, facsimile, mail or other appropriate means.

Article 19 The head of the audit department may attend the meetings of the Audit Committee, and where necessary, directors, supervisors and senior management may be invited to attend such meetings, but non-members of the Audit Committee shall have no voting rights. Meanwhile, if a member of the Audit Committee has an interest in any matter being considered by the Audit Committee, such member shall abstain from voting on such matter.

Article 20 The Company shall provide the Audit Committee with sufficient resources for it to perform its duties. The Audit Committee's working expenses shall be covered by the budget of the Company. The Audit Committee shall have the right to, when performing its duties and if necessary, engage lawyers, certified public accountants, certified auditors and other professionals to provide professional opinions on its decision-making and the reasonable expenses incurred therefrom shall be borne by the Company.

Article 21 The convening procedures of, voting method and resolutions passed at the meetings of the Audit Committee shall comply with the provisions of relevant laws and regulations, the Articles of Association, the Listing Rules and the Terms of Reference.

Article 22 Detailed and complete minutes of meetings of the Audit Committee shall be prepared. Draft and final versions of minutes of the meetings shall be in turn sent to all members of the Audit Committee within a reasonable time after the meetings. The draft is provided for members to express their views, with the final version serving as a record. The minutes shall be signed by members present at the meetings. Minutes of meetings of the Audit Committee shall be properly kept by the secretary to the Board of Directors of the Company for at least ten years during the existence of the Company. Draft and final versions of minutes of meeting of the Audit Committee shall be circulated to all members of the Audit Committee for their comment and record respectively, within a reasonable time after the meeting is held. Upon signing by members of the Audit Committee who attend the meetings, the minutes of meetings shall be submitted to all members of the Board of Directors for circulation. Resolutions of the Audit Committee shall come into force after being signed by the attending members, and no amendment or modification shall be made to any resolutions of the Audit Committee that have come into force unless in accordance with the relevant laws and regulations, the Articles of Association and the Terms of Reference. Resolutions passed at the meetings of the Audit Committee and the voting results shall be reported in writing to the Board of Directors.

Article 23 Minutes of meetings of the Audit Committee shall at least include the followings: the date, venue and name of convener of the meetings; the names of the attendees with specific notes on whether a proxy is entrusted for the meetings; the meeting agenda; the key points of the members' speeches; the voting method and poll results of each resolution or proposal; other matters that need to be indicated and recorded in the minutes of meetings.

Article 24 Members present at meetings of the Audit Committee and persons attending such meetings shall perform a duty of confidentiality regarding matters discussed at such meetings. No unauthorized disclosure of such information shall be allowed, unless otherwise stipulated under relevant laws, regulations, and/or by regulatory bodies.

CHAPTER VI SUPPLEMENTARY PROVISIONS

Article 25 In the Terms of Reference, the terms “above” and “within” shall include the given figure, while the term “more than” shall not include the given figure.

Article 26 The Terms of Reference shall be deliberated and approved by the Board of Directors, and shall come into force and be implemented from the day on which the oversea listing foreign shares (H Shares) of the Company in the initial public offering are listed and traded on the Hong Kong Stock Exchange. The Terms of Reference shall be amended and interpreted by the Board of Directors.

Article 27 Any matters not covered herein shall be implemented in accordance with the provisions of relevant laws, regulations, departmental rules, the Listing Rules and any other regulatory rules of the place(s) where the shares of the Company are listed and the Articles of Association. Where the Terms of Reference conflict with any provisions of relevant laws, regulations, departmental rules, the Listing Rules and any other regulatory rules of the place(s) where the shares of the Company are listed or the Articles of Association, such laws, regulations, departmental rules, the Listing Rules and any other regulatory rules of the place(s) where the shares of the Company are listed and the Articles of Association shall prevail, and the Terms of Reference shall be amended accordingly as soon as practicable and submitted to the Board of Directors for consideration and approval.

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

Shenzhen Edge Medical Co., Ltd.