

# **Cryofocus Medtech (Shanghai) Co., Ltd.**

## **Terms of Reference for the Audit Committee of the Board of Directors**

### **Chapter 1 General Provisions**

- Article 1 In order to further enhance the decision-making functions of Cryofocus Medtech (Shanghai) Co., Ltd. (the “**Company**”) and fully utilize the supervisory role of the audit committee to maintain audit independence, strengthen the audit, evaluation and oversight mechanism of the board of directors of the Company (the “**Board**”), ensure effective supervision of the Board and improve the corporate governance structure of the Company, the Audit Committee of the Board (the “**Audit Committee**”) is established in accordance with the Company Law of the PRC (中華人民共和國公司法) (the “**Company Law**”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Articles of Association with the following terms of reference (the “**Terms of Reference**”).
- Article 2 The Audit Committee is a specialized committee established by the Board in accordance with a resolution of the Board. The Audit Committee is primarily responsible for coordinating, overseeing and inspecting the Company’s internal and external audits, reviewing financial information and disclosures thereon, and supervising and inspecting major decision-making matters and is accountable to the Board.

### **Chapter 2 Composition**

- Article 3 The Audit Committee shall consist of three or more non-executive directors, of which independent non-executive directors shall account for the majority. Among its members, at least one shall be an independent non-executive director who has the appropriate professional qualifications specified in Rule 3.10(2) of the Listing Rules, or the appropriate accounting or relevant financial management expertise. Members of the Audit Committee shall be nominated by the chairman of the Board, a majority of the independent non-executive directors, or more than one third of all Directors of the Company (the “**Directors**”), and be elected and removed by a majority of all Directors. A partner of the Company’s current external audit institution shall not serve as member of the Audit Committee within two years from the date when he ceases to be a partner of the audit institution or no longer enjoys the financial interests of the current external audit institution, whichever is later.
- Article 4 The Audit Committee shall have a chairman, who shall be an independent non-executive Director, in charge of presiding over the work of the Audit Committee. The chairman of the Audit Committee shall be elected and removed by a majority vote of all Directors of the Board.

Article 5 The term of office of the Audit Committee shall be the same as that of the current Board. If a member ceases to be a Director of the Company during his/her term of office, he/she shall automatically lose his/her membership. The vacancy shall be filled by the Board in accordance with the provisions of Articles 3 and 4.

Article 6 The working unit under the Audit Committee is the daily administrative body to take charge of daily communications and organization of meetings under the leadership of the secretary of the Board and the finance officer of the Company. Members of the working unit need not to be members of the Audit Committee.

### **Chapter 3 Duties and Authorities**

Article 7 The main duties of the Audit Committee are as follows:

- (i) Relationship with the auditors
  - 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 to address any questions of its resignation or dismissal. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Company shall include a statement from the Audit Committee on its recommendation in the Corporate Governance Report prepared in accordance with Appendix 14 to the Listing Rules and the reason(s) why the Board has taken a different view;
  - 2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and the Audit Committee shall discuss with the auditor the nature and scope of the audit and related reporting obligations before the audit commences;
  - 3. to develop and implement policies on engaging an external auditor to supply non-audit services; for this purpose, an external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee shall report to the Board on the actions or improvements it deems necessary and suggest what measures can be taken;
  - 4. to act as the main representative between the Company and the external auditor, and be responsible for overseeing the relationship between them.

(ii) Review of the Company's financial information

1. to monitor integrity of the Company's financial statements and annual reports and accounts, interim reports and (if prepared for publication) quarterly reports, and to review the significant financial reporting judgements contained in them. In this respect, the Audit Committee shall pay special attention to the following issues when reviewing the annual reports and accounts, interim reports and quarterly reports (if prepared for publication) which are to be submitted to the Board:

- (1) any changes in accounting policies and practices;
- (2) any issue relating to major judgmental areas;
- (3) any significant adjustments resulting from the audit;
- (4) the going concern assumptions and any qualifications;
- (5) the status of compliance with accounting standards; and
- (6) the status of compliance with the Listing Rules and other legal requirements in relation to financial reporting;

2. For the purpose of item (1) above:

- (1) Members of the Audit Committee shall liaise with the Board and senior management members and accounting personnel of the Company. The Audit Committee shall meet, at least twice a year, with the Company's auditor; and
- (2) The Audit Committee shall consider any significant or unusual matters that are, or may need to be, reflected in the reports and accounts and shall 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 auditors;

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

1. to review the Company's financial controls and to review the Company's risk management and internal control systems;
2. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to establish effective systems. This discussion shall include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting functions;

3. to review whether the employees of the Company are able to raise questions/concerns in confidence about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation and for appropriate follow-up action for the Company;
4. to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the management's response to these findings;
5. where an internal audit function exists, to ensure coordination 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 review and monitor its effectiveness;
6. to review the financial and accounting policies and practices of the Company and its subsidiaries;
7. to review the external auditor's management letter, any material queries raised by the auditor with management about accounting records, financial accounts or systems of control and management's response;
8. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
9. to report to the Board on the matters in the provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules; and
10. to consider other topics, as defined by the Board.

Article 8 The Audit Committee is accountable to the Board, and the proposals of the Audit Committee shall be submitted to the Board for deliberation and decision. The Audit Committee shall cooperate with the board of supervisors of the Company in their supervision and audit activities.

Article 9 The Audit Committee has the following rights:

- (i) the right to periodically monitor the work reports of the internal audit institution of the Company and the financial and accounting institutions, and to obtain the internal and external audit reports and financial reports of the Company on a regular basis. The Audit Committee may require the internal and external audit institutions to conduct a special audit and provide relevant work and consulting reports, and may also hire legal advisers to obtain legal advice when necessary;

- (ii) the right to obtain the Company's annual production and operation plans, the annual financial budgets, reports on material investment matters, important contracts and agreements, and all information deemed necessary by the Audit Committee;
- (iii) the right to visit the external audit and advisory institutions, major customers and suppliers, major creditors and debtors. When the Audit Committee deems it necessary, it may carry out special investigations, such as on-site investigations, identification of assets, circularization of significant credit and debt, investigation and collection of evidence from the parties concerned.

Article 10 The Company shall provide members with the working conditions necessary for the Audit Committee to perform its duties. The secretary of the Board and the finance officer of the Company shall provide assistance to members of the Audit Committee in the performance of their duties, including but not limited to briefing, providing materials, coordinating with relevant departments, preparing meetings of the Audit Committee and assisting with the implementation of resolutions made by the Audit Committee. When the Audit Committee exercises its powers, the relevant personnel of the Company shall actively cooperate with the members of the Audit Committee in the exercise of their authority and shall not refuse, obstruct or conceal, or interfere with the exercise of such authority.

Article 11 Save for the remuneration or allowances they have received as the Company's Directors or independent Directors as determined at general meetings of shareholders in accordance with relevant laws, regulations, regulatory documents and the Articles of Association, members of the Audit Committee shall not obtain additional undisclosed interests from the Company and its substantial shareholders or interested bodies and personnel.

#### **Chapter 4 Decision Making Procedures**

Article 12 The working unit under the Audit Committee is responsible for making preliminary preparations for the decision-making process of the Audit Committee and providing relevant written information of the Company in relation to:

- (i) relevant financial reports of the Company;
- (ii) work reports of internal and external audit institutions;
- (iii) external audit contracts and relevant work reports;
- (iv) external disclosures of information made by the Company;
- (v) audit reports on material connected transactions of the Company;
- (vi) other related matters.

Article 13 The Audit Committee shall discuss the reports submitted by the working unit at its meetings and submit its relevant written resolutions to the Board for consideration:

- (i) appraisal of the work of the external audit institution, and the engagement and replacement of the external audit institution;
- (ii) whether the internal audit system of the Company has been effectively implemented and whether the financial reports of the Company are fair;
- (iii) whether the financial information disclosed publicly by the Company is true, accurate and complete and whether material connected transactions of the Company are in compliance with relevant laws and regulations;
- (iv) appraisal of the work of the internal finance department and the audit department, including their staff in positions of authority;
- (v) other relevant matters.

#### **Chapter 5 Convening and Notification of Meetings**

Article 14 The Audit Committee shall hold at least four meetings every year, convened by the chairman of the Audit Committee, and the agenda shall be notified to all its members three days before the meetings.

Article 15 In the event where any of the following circumstances occurs, the chairman of the Audit Committee shall convene a meeting within five working days:

- (i) when a proposal is jointly made by more than one third of the Directors;
- (ii) when a proposal is jointly made by more than half of the members of the Audit Committee;
- (iii) when the Board deems necessary.

Article 16 The notice of meeting of the Audit Committee (the “**Notice**”) shall include the following contents:

- (i) date and place of the meeting;
- (ii) duration of the meeting;
- (iii) reasons and agenda;
- (iv) date of the Notice.

Article 17 The Notice shall be sent in the form of letters, e-mails, faxes or other means.

## **Chapter 6 Rules of Procedure and Voting**

- Article 18 More than two-thirds of the members are required to form the quorum of an Audit Committee meeting. Members may attend the Audit Committee meeting in person or delegate other members to attend on their behalf. Members shall attend the meeting with a serious and responsible attitude and shall express a clear opinion on all items on the agenda.
- Article 19 If a member delegates another member to attend the meeting and exercise voting rights, he shall submit a power of attorney. The power of attorney shall be signed by the principal and shall state the name of the agent, the entrusted matters, the scope and validity period of authorization.
- Article 20 If a member neither attends the meeting nor delegates another member to attend on his/her behalf, he shall be deemed to have waived the right to vote at the meeting.
- Article 21 The meeting of the Audit Committee shall be presided over by the chairman of the Audit Committee, and where he is unable to attend the meeting, he may appoint another member to preside over the meeting.
- Article 22 When the Audit Committee conducts a vote, each member shall be entitled to one vote; resolutions of a meeting must be adopted by a majority vote of its members.
- Article 23 Resolutions of the Audit Committee shall be passed by a show of hands or by poll; the meeting can be held by telephone, fax, letter, e-mail, audio or video communication, etc. As long as attending members are able to communicate at the meeting, all attending members shall be deemed to be present at the meeting.
- Article 24 Where necessary, the Audit Committee may invite Directors, supervisors and senior management members of the Company to attend meetings of the Audit Committee. However, non-Audit Committee members do not have voting rights.
- Article 25 The Audit Committee may, if necessary, engage an intermediary agency to provide professional advice on its decisions with expenses being borne by the Company.
- Article 26 When the Audit Committee meeting discusses matters in which a member is interested, the relevant member shall abstain from taking part in the vote on such matters and the number of votes they represent shall not be included in the total number of effective votes. Minutes and resolutions of the Audit Committee meetings shall clearly state the fact that interested members are not counted in the quorum and that they did not vote.

## **Chapter 7 Resolutions and Minutes of Meeting**

- Article 27 The Audit Committee shall prepare minutes of its meetings, and members present at the meetings and the person who drafted the minutes shall sign on the minutes of the meeting. The full minutes of the Audit Committee meetings should be kept by the duly authorized secretary for the meeting (usually the company secretary). The first draft and final version of the minutes of the meetings shall be sent to all Audit Committee members for their comment and record, respectively, in each case, within a reasonable time after the meetings. Members present at a meeting have the right to request a descriptive record of their speeches at the meeting in the minutes of the meeting.
- Article 28 The minutes of the meetings of the Audit Committee shall include the following contents:
- (i) date, place and name of the convener of the meeting;
  - (ii) names of members present at the meeting;
  - (iii) the meeting agenda;
  - (iv) key points of speeches of members;
  - (v) the voting method and results for each resolution (the results of a vote shall clearly state the number of affirmative, negative and abstention votes).
- Article 29 The meeting archives of the Audit Committee shall include Notices, meeting materials, powers of attorney allowing other members to attend on their behalf, votes, and minutes and resolutions of meetings as confirmed by the signatures of attending members, and shall be kept by the secretary of the Board.
- Article 30 Any resolution passed or the results of a vote taken at a meeting of the Audit Committee shall be reported in writing to the Board by the chairman of the Audit Committee or the secretary of the Board within two days of the resolution having been passed.
- Article 31 All members present at a meeting shall be obliged to keep confidential all matters discussed at the meeting and shall not disclose such information without authorization.



## Chapter 8 By-laws

- Article 32 These Terms of Reference have been considered and approved by a general meeting of the Company and implemented from the date of the initial public offering and listing of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.
- Article 33 Any matters not covered by these Terms of Reference shall be implemented in accordance with the Company Law, the Listing Rules, other relevant laws and administrative regulations, as well as the Articles of Association. Where there is a conflict between these Terms of Reference and future laws, administrative regulations, the Listing Rules or other relevant regulatory rules of the listing place(s) or the Articles of Association as amended in accordance with legal procedures, these Terms of Reference shall be implemented in accordance with relevant laws, administrative regulations, the Listing Rules or other relevant regulatory rules of the listing place(s) and the Articles of Association, and shall be subject to appropriate amendments on this basis.
- Article 34 The Board shall be responsible for the interpretation of these Terms of Reference.

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