

# **Wuhan Dazhong Dental Medical Co., Ltd.**

## **TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD**

### **CHAPTER I GENERAL PROVISIONS**

**Article 1** In order to strengthen the decision-making function of the Board of Directors (the “**Board**”) of Wuhan Dazhong Dental Medical Co., Ltd. (the “**Company**”), continue to improve the establishment of the Company’s internal control system, ensure effective supervision and management of the Board and constantly improve the corporate governance structure, the Company has established the Audit Committee under the Board (the Audit Committee, the same below) pursuant to the resolution of the Board and in accordance with the Company Law of the People’s Republic of China (hereinafter the “**Company Law**”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”), the Corporate Governance Code as set out in Appendix C1 of the Hong Kong Listing Rules, A Guide for Effective Audit Committees published by the Hong Kong Institute of Certified Public Accountants, other applicable laws, administrative regulations, departmental rules, regulatory documents and the Articles of Association of Wuhan Dazhong Dental Medical Co., Ltd. (hereinafter the “**Articles of Association**”), and has prepared the Terms of Reference of the Audit Committee of the Board of Wuhan Dazhong Dental Medical Co., Ltd. (the “**Terms of Reference**”) based on the actual circumstances of the Company.

**Article 2** The Audit Committee of the Board is a special working organ established by the Board, its main functions include reviewing the financial position of the Company, reviewing the financial information of the Company, making judgments on the truthfulness, completeness and accuracy of financial information, monitoring the implementation and effectiveness of the internal control system, and it is mainly responsible for the communication between the Company and external auditors, supervising and verifying their audits, overseeing internal audits, evaluating and improving the internal control system of the Company and making recommendations, and conducting risk assessment on operating major investment projects of the Company. The Audit Committee of the Board shall report to the Board on its work.

### **CHAPTER II COMPOSITION**

**Article 3** The Audit Committee shall comprise at least three directors, all members must be non-executive directors, and the majority (more than one-half) of the members must be independent non-executive directors, the chairman of the Audit Committee must be an independent non-executive director.

The members of the Audit Committee shall possess some working experience in the finance, accounting, auditing and legal sectors with relevant professional knowledge and business experience. At least one of the members shall be an independent non-executive director with appropriate professional qualifications or appropriate accounting or relevant financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules.

A partner of the current external audit firm of the Company shall not act as a member of the Audit Committee within two years from the date of ceasing as a partner of the audit firm or from the date ceasing entitle to financial benefits of such current external audit firm (whichever the later date).

**Article 4** The members of the Audit Committee shall be nominated by the Chairman of the Board or by a nomination committee of the Board and shall be elected by more than one-half of all directors of the Board. After the proposal for election of committee members has been passed, newly elected members shall assume duty immediately after the end of the Board meeting.

**Article 5** The Audit Committee shall have one convener, being the chairman of the committee, who shall be an independent non-executive director, to be appointed by the Board and is responsible for overseeing the work of the committee. If the chairman of the committee is unable to or fails to perform duties, an independent non-executive director elected by at least one-half of all members shall perform the duties on his/her behalf.

**Article 6** The term of appointment of the Audit Committee shall be the same as the term of the Board. The members are eligible for re-election upon expiry of the term. If a member ceases to be a director of the Company during his/her term, or if a member who shall possess the status of an independent non-executive director ceases to possess the independence as required by the Articles of Association and the Hong Kong 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 prior to the expiry of his/her term to resign as a committee member, and shall provide necessary explanation on reasons for resignation and the matters that require attention of the Board of the Company. After a member of the Audit Committee ceases to be qualified or has been approved for his/her resignation, the Board shall replenish the number of members in accordance with the applicable laws, administrative regulations, departmental rules, regulatory documents, Hong Kong Listing Rules and the provisions of Articles 3 to 5 above. The term of service of the replenished member shall end upon expiry of his term of service as a director or an independent non-executive director. Prior to the expiry of the term of service of a member, unless any circumstances prohibiting such appointment under the Company Law, the Articles of Association or the Hong Kong Listing Rules arise, a member shall not be dismissed without a proper reason.

**Article 7** Except remuneration of directors and advanced payment of expenses, members of the Audit Committee shall not directly or indirectly receive any consulting fees, advisory fees or other emoluments from the Company in the capacity as a member of the Audit Committee.

### **CHAPTER III DUTIES AND AUTHORITIES**

**Article 8** The Audit Committee shall disclose its Terms of Reference on the websites of The Stock Exchange of Hong Kong Limited and the Company and explain its role and the powers delegated by the Board. The specific duties of the Audit Committee include:

- (1) To conduct annual review on the performance of external auditors, submit to the Board the summary report on the audit work of the Company conducted by the external auditors for the year, and make recommendations on issues relating to, among others, the engagement, re-appointment and dismissal of external auditors, approval of audit service fees and terms of engagement of the external auditors to the Board, and handle any matters relating to the resignation or dismissal of external auditors. If the Board of the Company disagrees with the opinions of the Audit Committee on the selection, engagement, resignation or dismissal of external auditors, the Company shall include a statement in the Corporate Governance Report to explain the recommendation of the Audit Committee and the reasons for the dissenting views of the Board;

- (2) To act as the Company's representative with external audit firm, be responsible for the communication between the internal audit department (the Internal Control and Internal Audit Department) of the Company and the external audit firm, including reviewing and monitoring whether the external audit firm is independent and objective and whether the audit procedures are effective according to applicable standards; discussing the nature, scope, methods and reporting responsibilities with the external audit firm before the commencement of the audit procedures, determining the time arrangement for the financial report audit work for the year in consultation with the external audit firm, and urging the external audit firm to submit the audit reports within the agreed time limit. Where more than one external audit firms are involved, ensure that they coordinate with each other;
- (3) According to business requirements, when engaging external audit firm to provide non-audit services, policies shall be formulated and implemented. The Audit Committee shall report and make recommendations to the Board on any matters for action or improvement. The external audit firm mentioned herein includes any institution that is jointly controlled, managed or jointly owned with the external audit firm engaged by the Company, or a third party reasonably aware of all the relevant information, which under reasonable circumstances may be considered as an institution forming a part of the domestic or international business of the external audit firm engaged by the Company. The Audit Committee should ensure that the provision of non-audit services by the external audit firm will not impair its independence or objectivity. For non-audit services, the Audit Committee should consider the following:
1. Whether the relevant external audit firm is suitable for providing non-audit services in terms of its capability and experience;
  2. Whether there are any precautions to ensure that the objectivity and independence of the audit work of the external audit firm will not be affected by the provision of such services;
  3. The nature of the non-audit services, the level of the relevant fees and, in relation to the external audit firm, the level of both the individual fees and the aggregate fees; and
  4. To determine the criteria for remuneration of auditors.

The Audit Committee shall report to the Board on matters which it deems necessary for action or improvement and recommend what steps may be taken;

- (4) Reviewing the Company's accounting policies, financial position, financial reporting procedures and financial controls; reviewing the completeness, accuracy, fairness and fidelity of the Company's financial statements and the Company's quarterly reports (if any), half-year reports and annual reports and accounts and review the significant financial reporting judgments contained in the above statements and reports, and review the disclosure of financial information of the Company. Before submitting the relevant statements and reports to the Board, the following matters shall be specifically reviewed: whether there has been any change in the Company's accounting policies, practices and estimates during the reporting period, any significant judgments involved, any significant adjustments resulting from auditing, and the Company's assumption of going concern or any qualified opinion, whether the accounting complies with accounting standards and the provisions of the Company Law, the Hong Kong Listing Rules and other applicable laws, administrative regulations, departmental rules and regulatory documents relating to financial reporting;

With respect to the above items that need to be critically reviewed, members of the Audit Committee are required to liaise with the Board, senior management, internal and external auditors in a timely manner. The members of the Audit Committee shall hold at least two meetings a year with the external audit firm without the attendance of executive directors (except those invited by the Audit Committee). The members of the Audit Committee shall consider any significant or unusual matters that may appear or may need to be reflected in the Company's reports and accounts, and shall give due consideration to matters raised by the Company's accounting and finance department, supervisory department, head of compliance or auditors;

- (5) Discussing the issues and queries raised by the external audit firm following the review of the Company's interim accounts and auditing of the Company's annual accounts, and other matters that the external audit firm wishes to discuss (with the recusal of management if necessary);
- (6) Reviewing the Company's financial policies, internal audit system, internal control system and risk management system, providing opinions and recommendations for improvement, and:
  - 1. Examine the Company's financial and accounting policies and practices and any related changes;
  - 2. Monitor the preparation process of periodic financial reports (quarterly financial report (if any), interim financial report, annual financial report), and review relevant information such as periodic financial report and financial results announcement;
  - 3. Review the financial controls of the Company, and (unless there is a separate Risk Committee under the Board or the Board itself would expressly address such matters) review the risk management and internal control systems of the Company;
  - 4. Discuss with the management and assess the effectiveness of the financial control, internal control and risk management systems to ensure that the management has performed its duties to establish effective financial control, internal control and risk management systems; the discussion should include the adequacy of resources and staff qualifications and experience in the accounting and financial reporting functions, the training courses received by the staff concerned and the budget for accounting and financial reporting. If the annual report contains a statement relating to the internal control system of the Company, it should be reviewed before submission to the Board for approval;
  - 5. Conduct research on its own initiative or upon the appointment of the Board on the significant findings of investigation on risk management and internal control matters, as well as on the responses of the management to the findings;
  - 6. Ensure that the work of both the Internal Control and Internal Audit Department of the Company and the external audit firm are coordinated; also ensure that the Internal Control and Internal Audit Department of the Company has sufficient resources to operate within the Company, with appropriate authority and status, and evaluate and supervise the effectiveness of the Internal Control and Internal Audit Department of the Company;

7. Review the operational, financial and accounting policies and practices of the Company and its subsidiaries;
8. Reviewing the explanatory letters or management letters issued by the external audit firm to the management, the material queries raised by the external audit firm on the accounting records, financial accounts or control systems, and the responses made by the management;
9. Formulate together with the Board the policies of the Company regarding the employment of staff and former staff of external audit firms, and to monitor the application of these policies. The Audit Committee shall consider whether the circumstances impair, or appear to impair, the judgment or independence of the external auditors in their audit work;
10. Act as the primary representative between the Company and the external audit firm, and be responsible for monitoring their relationship;
11. Ensure that the Board responds in a timely manner to the explanatory letter or management letter issued by the external audit firm to the management regarding the inspection findings;
12. Formulate and review the Company's corporate governance policies and practices, and make recommendations to the Board;
13. Review and monitor the training and continuous professional development of directors and senior management;
14. Review and monitor the Company's policies and practices in respect of compliance with legal and regulatory requirements;
15. Supervise the work of the Company's internal audit department, and provide opinions and recommendations on the appraisal and change of the person in charge of the Company's internal audit department;
16. Supervise the potential improprieties of the Company's employees in financial reporting, internal control or other aspects;
17. Review the Company's compliance with the Corporate Governance Code and its disclosure in the Corporate Governance Report;
18. Report to the Board on any of the above-mentioned related matters, and consider other issues as defined by the Board; and
19. Report to the Board on matters set out in Code Provision D.3.3 of the Corporate Governance Code in Appendix C1 of the Hong Kong Listing Rules.

- (7) The Audit Committee shall establish relevant procedures to ensure that the following matters are investigated and resolved impartially and independently:
1. Receive and handle complaints about the Company's accounting, internal control or auditing matters, and ensure their confidentiality;
  2. Receive and handle employees' complaints or anonymous reports on accounting, auditing matters, internal control or other possible improprieties, and ensure the confidentiality of such complaints. Reviewing the procedures by which the Company's staff may secretly raise concerns about possible improprieties in financial reporting, internal control or other areas, and ensuring that appropriate arrangements are in place to allow for a fair and independent investigation and appropriate follow-up action on such matters;
- (8) Advise and ensure that the Board adopts effective remedial measures in respect of the Company's non-compliance with the Hong Kong Listing Rules regarding the establishment of an Audit Committee;
- (9) Complete other work assigned by the Board;
- (10) Perform other duties as prescribed by applicable laws, administrative regulations, departmental rules, regulatory documents, regulatory bodies such as The Stock Exchange of Hong Kong Limited and the Hong Kong Securities and Futures Commission, the Articles of Association of the Company, and the rules of procedure of the Board.

The Company's senior management and relevant departments shall adopt a cooperative and supportive attitude towards the Audit Committee by actively providing relevant information. The finance department shall regularly and truthfully provide the Audit Committee with financial and accounting materials such as financial reports and capital operation reports, report the relevant material business operations in a timely manner, actively cooperate with the Audit Committee in its work, and earnestly listen to the suggestions and requirements put forward by the Audit Committee.

**Article 9** The Audit Committee is accountable to the Board, and its proposals are regularly submitted to the Board for consideration and decision. The Audit Committee shall cooperate with the Supervisory Committee in overseeing the auditing activities.

**Article 10** The main duties of the chairman of the Audit Committee include:

- (1) Convene and preside over meetings of the Audit Committee;
- (2) Oversee the daily operation of the Audit Committee;
- (3) Confirm and sign the reports and other important documents of the Audit Committee;
- (4) Review the implementation of the resolutions and recommendations of the Audit Committee;
- (5) Report work to the Board on behalf of the Audit Committee;
- (6) Perform other duties which should be performed by the chairman of the Audit Committee.



## **CHAPTER IV WORK PROCEDURE**

**Article 11** The Internal Control and Internal Audit Department is responsible for internal audit of the Company, which is under the direct leadership of the Audit Committee and is the daily operation body of the Audit Committee.

**Article 12** The Internal Control and Internal Audit Department shall be responsible for preliminary preparations for the decision-making of the Audit Committee by providing materials on relevant aspects of the Company:

- (1) relevant financial reports of the Company;
- (2) work reports from the internal and the external audit organs;
- (3) contracts of external audits and the relevant work reports;
- (4) disclosure of information to the public by the Company;
- (5) agreements on the Company's connected (related-party) transactions, audit reports on material connected (related-party) transactions and the findings on the investigation of connected (related) parties;
- (6) financial data and legal information on significant investment projects;
- (7) relevant work reports on the internal control system of the Company and its implementation; and
- (8) other relevant information.

The Audit Committee performed its principal duties under Article 8 of these Terms of Reference based on the information provided by its daily operating organs.

**Article 13** Working methods of the Audit Committee:

- (1) During the meetings of the Audit Committee, discuss the internal audit work plans, listen to the financial work reports of the Company, consider and comment on the reports provided by the Internal Control and Internal Audit Department, and review the quarterly (if any), interim and annual financial reports of the Company. The Audit Committee may make decisions based on the opinions of experts from professional institutions, and report the matters that need to be submitted to the Board for decision to the Board for discussion, mainly including:
  1. appraisal of the work of the external audit firm, engagement and replacement of the external audit firm, approve the remuneration and terms of engaging external audit firm;
  2. whether the internal control system and internal audit system of the Company have been effectively implemented, and whether the financial reports of the Company are complete and accurate;

3. whether information disclosed by the Company, including financial reports, is objective and true, and whether the Company's material connected (related-party) transactions are in compliance with relevant laws and regulations;
  4. evaluation on the work performance of the Company's financial department and its person-in-charge and the audit department and its person-in-charge; and
  5. other relevant matters;
- (2) In the course of preparation and disclosure of the annual financial report of the Company, the Audit Committee shall follow the working rules and procedures as set out below:
1. Negotiate with the external audit firm responsible for auditing the financial statements of the Company for the year (hereinafter referred to as the “**Annual Audit CPA**”) in a timely manner after the end of the financial year to determine the audit work schedule for the financial year;
  2. Supervise the Annual Audit CPA to submit the audit report within the agreed time limit;
  3. Review the financial and accounting statements prepared by the Company before the entry of the Annual Audit CPA;
  4. Review the financial and accounting statements of the Company after the Annual Audit CPA has issued a preliminary audit opinion;
  5. Convene meetings of the Audit Committee to review the financial reports, propose the re-appointment or change in the appointment of the Annual Audit CPA for the next year, and summarize the audit work done by the Annual Audit CPA for the current year to issue a report.

The chairman of the Audit Committee or (in his/her absence) another member of the Audit Committee (who must be an independent non-executive Director) is required to attend the annual general meeting of the Company and respond to enquiries from shareholders on the activities and responsibilities of the Audit Committee.

## **CHAPTER V RULES OF PROCEDURE**

**Article 14** Meetings of the Audit Committee are divided into regular meetings and extraordinary meetings.

Regular meetings of the Audit Committee are convened at least twice a year and in advance of the regular Board meetings of the Company to discuss comments and suggestions for submission to the Board. The interim and annual financial statements of the Company shall be reviewed and discussed by the Audit Committee in its two meetings convened during a year.

The chairman of the Audit Committee may convene an extraordinary meeting on his/her own initiative or at the request of the independent accountants or internal auditors. An extraordinary meeting may be convened upon the proposal from more than half of the committee members or the chairman of the Board.



**Article 15** The chairman of the Audit Committee shall convene the meeting and issue a notice of meeting. The notice of meeting and the meeting materials shall be communicated to all members three days in advance of the meeting. The advance notice requirement may be waived by the unanimous consent of all members.

**Article 16** In the event that the chairman of the committee is unable to attend, another independent non-executive director may be appointed to chair the committee meeting. The convening of an extraordinary meeting is not subject to the above time limit.

**Article 17** A meeting of the Audit Committee shall be held only when at least two-thirds of the members are present, one of the members must be an independent non-executive director. If a member is unable to attend a meeting, he/she may authorize another member in writing to attend the meeting and vote on his/her behalf, the authorization letter shall state clearly the name of the proxy, matters to be handled by the proxy, the scope of authorization and the valid period, and signed or sealed by the authorizing member, and to be submitted to the chairman of the meeting the latest before voting at the meeting.

Resolutions passed at the meeting shall be approved by more than half of all the members, and relevant resolutions or opinions shall be signed by the members of the Audit Committee attending the meeting. Each member is entitled to one vote, which is divided into three categories, namely “for”, “against” and “abstention”. In the event of an equal number of affirmative votes and negative votes, the chairman of the committee shall be entitled to one additional vote.

**Article 18** Audit Committee meetings may be convened by appropriate methods and means such as on-site meeting, telephone conference, video conference, circulation of documents, fax and mail.

**Article 19** The person in charge of the Internal Control and Internal Audit Department may attend the meetings of the Audit Committee as non-voting delegates, and if necessary, the Company’s directors, supervisors and senior management may be invited to attend the meetings as non-voting delegates, but non-committee members have no right to vote on the resolutions at the meetings.

**Article 20** The Company shall provide the Audit Committee with sufficient resources to discharge its duties. The work expenses of the Audit Committee are included in the budget of the Company. If necessary, in the course of performing its duties, the Audit Committee has the right to engage professionals such as lawyers, certified public accountants, practicing auditors and other professionals for its decision-making and providing professional opinions, and the Company shall bear the reasonable expenses incurred.

**Article 21** The convening procedures, voting methods and resolutions passed at the meetings of the Audit Committee shall comply with the requirements of applicable laws, administrative regulations, departmental rules, regulatory documents, the Hong Kong Listing Rules, the Articles of Association and these Terms of Reference.

**Article 22** Detailed and complete minutes shall be prepared for the meetings of the Audit Committee, and the members present shall sign the minutes. The secretary to the Board shall properly keep the minutes of the meetings for not less than 10 years during the existence of the Company. Draft and final versions of minutes should be circulated to all Audit Committee members within a reasonable time after the conclusion of each Audit Committee meeting, with the draft version for their comments and the final version will be kept for record purpose. The minutes will be circulated to all members of the Board after being signed by the members of the Audit Committee attending the meeting. The minutes of such meetings shall be made available for inspection by any Director at all reasonable hours on reasonable notice. Minutes of the meetings should record in sufficient detail the matters considered and decisions reached at the meetings, and should include any concerns raised or dissenting views expressed by the directors. The resolutions of the Audit Committee shall become effective upon being signed by the members present at the meeting, and no effective resolutions of the Audit Committee may be modified or altered without complying with the legal procedures as stipulated in the applicable laws, administrative regulations, departmental rules, regulatory documents, the Hong Kong Listing Rules, the Articles of Association and these Terms of Reference. The resolutions passed and voting results at the meetings of the committee shall be reported to the Board in writing.

**Article 23** The minutes of the Audit Committee meetings shall at least include the following details: the date and place of the meeting and the name of the convener; the names of the persons present at the meeting, especially those attending the meeting by proxy; the agenda of the meeting; key points of speeches made by members; the voting method and result of each resolution; other matters that shall be explained and recorded in the minutes.

**Article 24** Members present and attendees at the meeting are obliged to keep confidential the matters discussed at the meeting, and are not allowed to disclose the relevant information without authorization, unless according to provisions otherwise required by applicable laws, administrative regulations, departmental rules, regulatory documents, the Hong Kong Listing Rules and/or regulatory authorities.

## **CHAPTER VI SUPPLEMENTARY PROVISIONS**

**Article 25** The terms “at least” and “within” as mentioned in these Terms of Reference include the stated figures; “over” does not include the stated figures.

**Article 26** These Terms of Reference, as considered and approved by the Board, shall become effective and implemented on the date of listing of the H Shares of the Company issued to the public on The Stock Exchange of Hong Kong Limited.

**Article 27** The Board shall be responsible for the revision and interpretation of these Terms of Reference.

**Article 28** Matters not covered by these Terms of Reference shall be implemented in accordance with the provisions of the applicable laws, administrative regulations, departmental rules, regulatory documents, Hong Kong Listing Rules, the relevant regulatory rules of the place of listing and the Articles of Association. Where there is a conflict between these Terms of Reference and the applicable laws, administrative regulations, departmental rules, regulatory document, Hong Kong Listing Rules, the relevant regulatory rules of the place of listing and the Articles of Association, such applicable laws, administrative regulations, departmental rules, regulatory document, Hong Kong Listing Rules, the relevant regulatory rules of the place of listing and the Articles of Association shall prevail for implementation, and these Terms of Reference shall be revised as soon as possible for submission to the Board for consideration and approval.