



CHINA MEDICAL SYSTEM HOLDINGS LIMITED

康哲藥業控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 867)

The Audit Committee Terms of Reference

(Revised and effective since 31 July 2020)

The audit committee (the “**Committee**”) of China Medical System Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) was established in accordance with the resolution passed by the Company’s board of directors (the “**Board**”) in 2007. The terms of reference of the Committee (the “**Terms of Reference**”) were revised by the Board on 31 July, 2020. The Terms of Reference are available in English and Traditional Chinese, and the Traditional Chinese version is a translated version for reference only.

1. Composition

- 1.1 The Committee shall be appointed by the Board from its non-executive directors (the “**Director(s)**”). The Committee shall have at least three members (“**Member(s)**”). Most of the Members must be independent non-executive Directors. At least one of them must be in accordance with the Rule 3.10(2) of the Listing Rules of the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) which requires appropriate professional qualifications or accounting or related financial management expertise.
- 1.2 The chairman of the Committee is appointed by the Board and must be an independent non-executive Director.
- 1.3 All Members are appointed and dismissed by the Directors themselves. The Board may change the composition of the Committee in response to the Listing Rules as amended from time to time or the rules of any other exchange where the Company’s shares are listed or seeking listing, or other laws, regulations and rules recognized by the applicable regulatory authority from time to time (the “**Applicable Rules**”).

**For identification purpose only*

- 1.4 The company secretary of the Company or its authorized representative is the secretary to the Committee (the “**Secretary to the Committee**”).
- 1.5 The former partner of the existing auditing firm of the Company should be prohibited from acting as a Member for a period of two years from the date of the person ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.

2. Meeting Proceedings

- 2.1 The quorum for the meetings of the Committee shall be two Members.
- 2.2 The Committee shall meet at least twice a year. If any Member and the external auditor deem it necessary, they may request a meeting.
- 2.3 The chief financial officer and external auditor representatives of the Company may attend the meetings of the Committee. Other members of the Board are also entitled to attend meetings of the Committee at the invitation of the Chairman of the Committee. However, the Committee is required to hold at least two meetings with the external auditor each year, at least one of which there is no executive Directors at present.
- 2.4 The meeting can be attended by Members in person, or by telephone or video.
- 2.5 Only Members present at the meeting can be counted as a quorum and have the right to vote. Each Member has one vote, and the Committee’s resolution at any meeting must be passed by a majority of the Members present. The written resolution signed by all Members shall have the same legal effect as the resolution passed at a legally convened and held meeting of the Committee.
- 2.6 The chairman or if the chairman is vacant, another Member (must be an independent non-executive Director) should attend the Company’s annual general meeting and be prepared to answer questions from shareholders about the activities and duties of the Committee.

3. Authority

- 3.1 The Committee is authorized by the Board to investigate any activities within its scope of authority. The Committee has the right to request any information acquired by any employee or Director of the Company for the purpose of performing its duties, and any employee or Director must cooperate with any request made by the Committee.
- 3.2 If the Committee considers it necessary, it may seek independent legal and professional advice from independent third parties with relevant experience and professional talents.

4. Duties

- 4.1 Primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and dealing with any questions of its resignation or dismissal.
- 4.2 Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.
- 4.3 Discuss the nature, the scope and reporting responsibilities with the external auditor before it starts the auditing; if more than one external auditor participates in the auditing, to ensure that they cooperate with each other.
- 4.4 Formulate and implement policies regarding the provision of non-audit services by external auditor. The Committee should report to the Board and make recommendations on any matters that require action or improvement.
- 4.5 Supervise the integrity of the Company's financial statements and the Company's annual reports and accounts, semi-annual reports and (if published) quarterly reports, and review the major opinions on financial reporting contained in the statements and reports. Before submitting relevant statements and reports to the Board, the Committee should review the following matters:
 - (a) Any changes in accounting policies and practices;
 - (b) Major judgmental areas;
 - (c) Significant adjustments resulting from audit;
 - (d) The going concern assumptions and any qualifications;
 - (e) Compliance with accounting standards;
 - (f) Compliance with the listing rules and legal requirements related to financial reporting.
- 4.6 In terms of (4.5) above:
 - (a) Members should liaise with the Board and senior management. The Committee must meet with the Company's auditor at least twice a year;
 - (b) The Committee shall consider any material or unusual matters that are or need to be reflected in such reports and accounts, and shall give due consideration to any matters raised by the Company's accounting and financial reporting staff, compliance officers or auditors.
- 4.7 Review the following arrangements set by the Company: employees of the

Company may secretly raise concerns about possible improper conduct in financial reporting, internal control or other aspects. The Committee shall ensure that appropriate arrangements are in place for the Company to conduct fair and independent investigations and take appropriate actions on such matters.

- 4.8 Serving as the main representative between the Company and the external auditor, responsible for monitoring the relationship between the two.
- 4.9 Review the Company's financial control, and review the Company's risk management and internal control systems.
- 4.10 Discuss risk management and internal control systems with the management to ensure that the management has fulfilled its responsibilities and established an effective system. The discussion should include whether the resources of the Company in the accounting and financial reporting functions, the qualifications and experience of the staff are sufficient, and whether the training courses and the relevant budgets received by the staff are sufficient.
- 4.11 Proactively or at the appointment of the Board, conduct research on important investigation results related to risk management and internal control matters and management's response to the investigation results.
- 4.12 If the Company has an internal audit function, it must ensure that the work of internal and external auditor is coordinated; it must also ensure that the internal audit function has sufficient resources to operate within the Company and has an appropriate position; and review and monitor its effectiveness.
- 4.13 Review the Group's financial and accounting policies and practices.
- 4.14 Review the management letter from the external auditor, any significant queries raised by the auditors to the management regarding accounting records, financial accounts or monitoring systems, and the management's response.
- 4.15 To ensure that the Board responds in a timely manner to the issues raised in the the external auditor's management letter.
- 4.16 Report to the Board of the Company on the matters set out in the code provisions contained in the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules (and amended from time to time).
- 4.17 To ensure that the Company's relevant practices and procedures for dealing with related persons are sufficient to meet the requirements of the Listing Rules and Applicable Rules.
- 4.18 When appropriate, review the Terms of Reference and recommend any necessary amendments to the Board.

4.19 To report to the Board on the matters within the scope of the Terms of Reference and issues that the Committee finds that need attention or need to be improved during the monitoring process, the Committee must make recommendations to the Board on handling or improving the relevant issues.

4.20 Consider other matters defined by the Board.

5. Reporting Proceedings

5.1 The Secretary to the Committee shall properly keep complete minutes of meetings of the Committee. The minutes of the meeting may be available for inspection by any Director within any reasonable time after reasonable notice has been given.

5.2 The Secretary to the Committee shall be responsible for preparing the minutes of the meetings of the Committee. The first draft and final draft of the meeting minutes shall be sent to all Members within a reasonable time after the meeting. The first draft is for Members to express their opinions and the final draft is used for their records.

5.3 Unless restricted by law or regulation, the Committee must report to the Board and must make the Board fully aware of its findings, decisions and recommendations.

6. Supplementary Provisions

6.1 The Terms of Reference shall come into force upon approved by the Board.

6.2 For the matters which are not covered by the Terms of Reference or are not in congruence with the provisions of the newly issued or revised laws, regulations and regulatory documents, the Listing Rules and the articles of association of the Company upon the Terms of Reference become effective, the relevant laws, regulations and regulatory documents, the Listing Rules and the articles of association of the Company shall prevail.

6.3 The right to interpret and amend the Terms of Reference shall reside with the Board.

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