



# China HealthCare Holdings Limited

## 中國衛生控股有限公司

(Incorporated in Bermuda with limited liability)  
(Stock Code: 673)

### TERMS OF REFERENCE OF AUDIT COMMITTEE

#### 1. Membership

1.1 Members of the Audit Committee (the “Audit Committee”) shall be appointed by the Board of Directors (the “Board”) of China Healthcare Holdings Limited (the “Company”). It shall consist of not less than three members appointed from amongst the non-executive directors, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The majority of the Audit Committee members must be independent non-executive directors.

1.2 The Board shall appoint the chairman of the Audit Committee who shall be an independent non-executive director. In the absence of the chairman of the Audit Committee, the remaining members present shall elect one of themselves (who must be an independent non-executive director) to chair the meeting.

1.3 A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of its Audit Committee for a period of one (1) year from the date of his ceasing:

(a) to be a partner of the firm; or

(b) to have any financial interest in the firm,  
whichever is later.

## **2. Quorum**

2.1 The quorum necessary for the transaction of business shall be two and one of them must be independent non-executive director. A duly convened meeting of the Audit Committee at which a quorum is present shall be competent to exercise all or any of the authorities, power and discretions vested in or exercisable by the Audit Committee.

## **3. Secretary**

3.1 The company secretary of the Company or his/her delegate or such other person appointed by the chairman of the Audit Committee shall act as the secretary at any meeting of the Audit Committee.

## **4. Meetings**

4.1 The Audit Committee should meet not less than twice per year. Additional meetings should be held as the work of the Audit Committee demands.

## **5. Attendance**

5.1 As necessary and desirable, the chairman of the Audit Committee may request that members of management, the head of internal audit and representatives of the external auditors be present at meetings of the Audit Committee. At least once a year the Audit Committee shall meet with the external auditors without executive Board members present.

## **6. Minutes**

6.1 Full minutes of Audit Committee meetings should be kept by a duly appointed secretary of the meeting (who should normally be the company secretary of the Company). Draft and final versions of minutes of the meetings should be sent to all Audit Committee members for their comment and records within a reasonable time after the meeting.

## **7. Responsibility**

7.1 The Audit Committee is to serve as a focal point for communication between other directors, the external auditors, the internal auditors and the Company's management as their duties relate to financial and other reporting, internal controls, and the external and internal audits (include other matters the Board deems necessary).

7.2 The Audit Committee is to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, by satisfying themselves as to the effectiveness of the company's internal controls and as to the sufficiency of the external and internal audits.

## **8. Duties**

### **8.1 Relationship with the Company's Auditors**

The Audit Committee is:-

(a) to be primarily responsible for making recommendation 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 any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should review and discuss with the auditor the nature and scope of the audit (including the engagement letter) and reporting obligations before the audit commences. The Audit Committee's review should include an understanding from the external auditors of the factors considered by them in determining their audit scope. The external auditors' fee is to be negotiated with management, and annually analysed for the Audit Committee's review;

(c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(d) to consider the performance of the external auditors;

(e) to review with the Company's management, external auditors and internal auditors, the adequacy of the Company's policies and procedures regarding internal controls;

(f) to evaluate the cooperation received by the external auditors, including their access to all requested records, data and information. Also obtain the comments of management regarding the responsiveness of the external auditors to the Company's needs. Inquire of the external auditors as to whether there have been any disagreements with management which if not satisfactorily resolved would result in the issue of a qualified report on the Company's financial statements;

(g) to discuss with the external auditors any relevant recommendations arising from audit. Review the draft management letter including management's responses to the points raised;

(h) to review the scope and results of internal audit procedures;

(i) to discuss with management the scope and quality of internal control systems; and

(j) to act as key representative body for overseeing the Company's relations with the external auditor.

## 8.2 Review of Financial Information of the Company

The Audit Committee is:-

(a) to have familiarity, through the individual efforts of its members, with the financial reporting principles and practices applied by the Company in preparing its financial statements;

(b) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:-

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(c) Regarding 2(b) above:-

- (i) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
- (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's employee responsible for the accounting and financial reporting function, compliance officer or auditors;

### 8.3 Oversight of the Company's Financial Reporting System and Internal Control Procedures

The Audit Committee is:-

- (a) to review the Company's financial controls, internal control and risk management systems;
- (b) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (c) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (d) where an internal audit function exists, to ensure co-ordination 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;
- (e) to review the group's financial and accounting policies and practices;
- (f) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (h) to report to the Board on the matters set out this Terms of Reference;
- (i) to consider other topics, as defined by the Board; and

- (j) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent of these matters and for appropriate follow-up action.

#### 8.4 Corporate Governance Functions

The Audit Committee is:-

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

#### 8.5 Others

The Audit Committee is:-

- (a) to apprise the Board of significant developments in the course of performing the above duties;
- (b) to recommend to the Board any appropriate extensions or changes in the duties of the Audit Committee;
- (c) to review the findings of internal investigations into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations; and
- (d) to be provided with sufficient resources to perform its duties.

## **9. Authority**

9.1 The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate as requested by members of the Audit Committee. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice as necessary to assist the Audit Committee.

9.2 The Audit Committee shall report to the Board any suspected frauds or irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention.

## **10. Reporting Procedures**

10.1 The Audit Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Audit Committee, the chairman of the Audit Committee shall report to the Board on the findings and recommendations of the Audit Committee. At least annually, the Audit Committee should present a report to the Board which addresses the work and findings of the Audit Committee during the year.