

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

GUANGDONG KANGHUA HEALTHCARE CO., LTD.

CHAPTER 1 GENERAL PROVISIONS

Clause 1 To enhance the decision-making of the board of directors (the “**Board**”) of Guangdong Kanghua Healthcare Co., Ltd. (the “**Company**”) and continuously improve the internal control system of the Company, ensure the Board’s effective supervision over the management and continually enhance the Company’s corporate governance, in accordance with laws and regulations including the Company Law of the People’s Republic of China (the “**Company Law**”), the Articles of Association of Guangdong Kanghua Healthcare Co., Ltd. (the “**Articles**”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and A Guide for Effective Audit Committee by the Hong Kong Institute of Certified Public Accountants and other applicable laws, regulations and relevant provisions of the Hong Kong Special Administrative Region of the People’s Republic of China, the Company has established the audit committee of the Board (the “**Committee**”) and formulated the Terms of Reference for the Audit Committee under the Board of Directors of Guangdong Kanghua Healthcare Co., Ltd. (the “**Terms**”) taking into account the actual situations of the Company.

Clause 2 The Committee is a specific working body established by the Board. Its main responsibilities are to communicate between the Company and external audit firms, supervise and review external audit, monitor internal audit, assess and enhance the internal control and risk management systems of the Company, and assess risks in respect of, among others, significant investments of the Company which are in progress.

CHAPTER 2 COMPOSITION OF COMMITTEE

Clause 3 The Committee shall comprise at least three directors and the total number of members shall be an odd number. All members of the Committee shall be non-executive directors and the majority of the members of the Committee shall be independent non-executive directors.

The Committee shall comprise at least one independent non-executive director of the Company who has appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.

A former partner of the external audit firm currently responsible for auditing the Company's accounts shall be prohibited from serving as a member of the Committee before one year has lapsed since the date on which he ceases to be a partner of the audit firm or to have any financial interest in the external audit firm, whichever is later.

Clause 4 Members of the Committee shall be nominated by the Chairman of the Board or the nomination committee of the Board, and shall be elected by more than half of the total number of directors of the Board. After the proposal of electing members of the Committee has been approved, the new members shall take offices immediately after the meeting of the Board.

Clause 5 The Committee shall have a chairman, who shall be an independent non-executive director. The chairman of the Committee shall be appointed by the Board and shall oversee the operation of the Committee. Where the chairman of the Committee is unable to or fails to discharge his/her duty, an independent non-executive director elected by at least half of the members of the Committee shall act in his/her duties.

Clause 6 The term of office of the members of the Committee shall be in line with those of the Board members. The members of the Committee may serve consecutive terms if re-elected upon the expiry of the current term of office. Where a member ceases to be a director or a member who is also the independent non-executive director but is no longer considered independent under the Articles and the Listing Rules, he will be disqualified as a member of the Committee accordingly. A member of the Committee may resign prior to the expiry of his/her term of office by submitting a written resignation report to the Board, which shall include the reason(s) for such resignation and if necessary, the matters that should be brought to the attention of the Board. If a member of the Committee is disqualified to act or his/her resignation has been accepted, the Board shall fill in the vacancy by appointing a successor member in accordance with relevant laws regulations, regulatory documents and Clauses 3 to 5 above.

CHAPTER 3 DUTIES AND AUTHORITIES

Clause 7 The Committee shall have the following duties and responsibilities:

- (1) to review annually the performance of the external audit firm, submit a summary of the audit work conducted by the external audit firm during the year to the Board, and make proposals to the Board in respect of the appointment, re-appointment or dismissal of the external audit firm for the forthcoming year as well as the remuneration for auditing service, terms of engagement etc., and deal with matters related to the resignation or dismissal of the external audit firm;
- (2) to act as the Company's representative in liaising with the external audit firm, communicate between the Company's internal audit department and external audit firm, including evaluation and examination of the independence and objectivity of the independent auditors and the effectiveness of the auditing procedures in accordance with applicable standards, and, before the commencement of any audit work, discuss with the external audit firm about the nature, scope and method of audit and the related reporting obligations, and discuss with it to fix the timing of auditing the financial report of the year, as well as oversee the external audit firm's timely submission of audit report within the predetermined timelines and so forth;
- (3) to, on an as-needed basis, formulate and implement policy on the provision of non-audit services by the external audit firm. The Committee shall identify any matters in respect of which it considers that actions or improvements are needed, report them to the Board and make recommendations on possible steps to be taken;

for the purpose of this provision, "external audit firm" includes any entity that is under common control, ownership or management with the external audit firm engaged by the Company or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the external audit firm, domestically or internationally;

- (4) to monitor completeness, accuracy and fairness of the quarterly (if any), interim and annual financial statements of the Company to be submitted to the Board and review significant financial reporting opinions contained in them. Prior to submitting the relevant statements and reports to the Board, the Committee shall focus particularly on the followings: any changes in accounting policies and estimates during the reporting period; any issue involving significant judgment; such significant adjustments, if any, to be made as shall be requested by the independent auditor upon completion of audit; the assumptions and any qualifications of the Company's continued operation; whether the accounting treatments are in compliance with accounting standards and provisions relating to financial reporting under the Company Law, the Listing Rules and other applicable laws and regulations;
- regarding the above items that shall draw particular focus in the reviewing process, the Committee shall communicate with the Board and senior management members and internal and external auditors in a timely manner. Members of the Committee shall meet with the independent auditor at least twice a year. They shall consider material or irregular matters reflected or required to be reflected in such reports and accounts, and shall give due consideration to matters raised by the Company's accounting and finance department, compliance department or auditor;
- (5) to discuss the questions raised by the independent auditor upon its completion of reviewing the interim accounts and of auditing the annual accounts of the Company;
- (6) to examine the financial policies, financial control, internal audit system, risk management and internal control 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;
 2. to monitor the process of compiling the regular financial reports (quarterly reports (if any), interim financial reports and annual financial reports), and examine the relevant information including the regular financial reports and financial results announcements;

3. to discuss with the management and assess the effectiveness of the risk management and internal control systems to ensure that the management has performed its duties in establishing an effective system. Discussions shall include the adequacy of resources, staff qualifications and experience, training program and budget of the Company's accounting and financial reporting function;
4. on its own initiative or as delegated by the Board, to consider major investigation findings on risk management and internal control matters and the measures adopted by the management in response to these findings;
5. to ensure co-ordination between the audit department of the Company and the external audit firm, and to ensure that the internal audit department is adequately resourced and has appropriate authorities and standing within the Company, and to review and monitor its effectiveness;
6. to review the independent auditor's letter of examination or proposals to management, any material queries raised by the independent auditor about accounting records, financial accounts or systems of control, and management's response;
7. to ensure the Board's timely provision of response to the issues raised in the independent auditor's letter of examination or proposals to management;
8. to supervise the work of the internal audit department of the Company, and provide opinions and recommendations on the appraisal and change of the person(s) in charge of the internal audit department;
9. to monitor against any possible improprieties in financial reporting, internal control or other matters; and
10. to report matters related to the above to the Board and consider such other matters as arranged by the Board;

- (7) to establish relevant procedures and ensure the impartial and independent investigation and resolution of the following matters:
 1. to receive and handle complaints about the Company's accounting, internal control or auditing and ensure their confidentiality;
 2. to receive and handle the complaints or anonymous whistleblowing by employees concerning the irregularities in the Company's accounting, auditing, internal control or any possible improprieties in other aspects, and ensure its confidentiality;
- (8) to complete other tasks assigned by the Board; and
- (9) to discharge other duties imposed by regulatory bodies including The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission of Hong Kong.

The senior management members and relevant departments of the Company shall be cooperative and supportive to the Committee and shall take the initiatives in providing relevant information. The finance department shall regularly and faithfully provide financial and accounting information including financial reports and capital operation reports to the Committee. It shall report, on a timely manner, significant business operating activities, cooperate with the Committee in its work, and listen to the recommendations provided and requests made by the Committee.

Clause 8 The Committee is accountable to the Board. Its proposals shall be submitted to the Board regularly for the Board's consideration and decision. The Committee shall cooperate with the board of supervisors in the supervision and auditing conducted by the board of supervisors.

CHAPTER 4 WORKING PROCEDURES

Clause 9 The audit department, which is in charge of internal audit of the Company, is under the direct supervision of the Committee and is the day-to-day working body of the Committee.

Clause 10 The audit department is in charge of the preliminary preparation for the decision-making of the Committee. It shall provide the following written materials of the Company:

- (1) relevant financial reports of the Company;

- (2) work reports of the internal and external auditors, respectively;
- (3) external audit contracts and related work reports;
- (4) disclosure of information to the public by the Company;
- (5) audit report on significant connected transactions;
- (6) financial and statutory information related to significant investments; and
- (7) other relevant information.

The Committee performs the primary duties under Clause 7 based on the information provided by its day-to-day working body.

Clause 11 Working procedures of the Committee are as follows:

- (1) during its meetings, the Committee discusses the work plans for internal audit, listens to the work report made by the Company's finance and audit department(s), comment on the reports submitted by the audit department, review the Company's quarterly reports (if any), interim reports and annual financial reports. The Committee may reach its decisions on the basis of the expert opinions expressed by professional firms, and shall submit matters to the Board for its consideration and decision;
- (2) the Committee shall comply with the following working rules and procedures in the preparation of annual financial reports and disclosures of the Company:
 1. to discuss with the independent auditor which is responsible for auditing the financial report of that year (the "**Annual Audit CPA**"), in a timely manner after the end of that financial year, to determine the timing for conducting audit in respect of that financial year;
 2. to procure the submission by the Annual Audit CPA of its audit report within the predetermined time frame;
 3. to review the financial statements prepared by the Company before the Annual Audit CPA commences its work;
 4. to review the financial statements of the Company after the Annual Audit CPA has issued its preliminary audit opinion; and

5. to convene meetings of the Committee to review the financial report, make proposals concerning the re-appointment or replacement of the Annual Audit CPA for the forthcoming year, and conclude the performance of the Annual Audit CPA firm for the current year and to compile a report thereon.

The above matters shall be submitted to the Board for review after a resolution is made.

CHAPTER 5 RULES OF PROCEDURES

Clause 12 Meetings of the Committee include regular meetings and extraordinary meetings.

The regular meeting of the Committee shall be held at least twice each year prior to the regular board meeting to be held before the annual general meeting of the Company to discuss the opinions and suggestions to be submitted to the Board.

The chairman of the Committee may convene extraordinary meetings of the Committee on his own initiatives or at the request of the independent accountant or internal auditor. An extraordinary meeting of the Committee may also be convened by the proposal of at least half of the number of members of the Committee or the recommendation of the Chairman of the Board.

Clause 13 A meeting of the Committee shall be convened by the Chairman and a notice of the meeting shall be issued. The notice of the meeting and the meeting materials shall be communicated to all members three days before the meeting. In case of unanimous consent of all members, the foregoing requirement of notification period may be waived.

Clause 14 Seven days' notice shall be given to all members before the meeting of the Committee. The meeting shall be chaired by the Chairman, or, where the Chairman is unable to present at the meeting, one of the independent non-executive directors as authorized by the Chairman. The requirement of the above notice period shall not apply to the convening of an interim meeting.

Clause 15 The quorum for meetings of the Committee shall be at least two thirds of the total members of the Committee. If a member is unable to attend a meeting, he/she may by a written power of attorney appoint another member to attend and vote at the meeting on his/her behalf. The power of attorney shall set out the name of the proxy, the subject and scope of authorization and the period of the validity of the power of attorney, and shall be signed or officially sealed by the principal and shall be submitted to the moderator of the meeting no later than the commencement of voting.

Resolutions at a meeting shall be passed by the affirmative votes of more than half of the members of the Committee. The respective resolution or opinion shall be signed by members who attend such meeting of the Committee. Each member of the Committee shall have one vote. A member of the Committee 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 chairman of the Committee shall have a casting vote.

Clause 16 Meetings of the Committee may be held by means of on-site meetings, by teleconferences, by videoconferences, by circulation of documents and by facsimile or by other appropriate means.

Clause 17 The person in charge of the audit department may attend a meeting of the Committee as an observer. Where necessary, a director, supervisor and senior management may be invited to attend a meeting of the Committee as an observer.

Clause 18 The budget of expenses of the Committee is included as part of the budget of the Company. In performing its duties, the Committee may, where necessary, engage professionals including lawyers, certified public accountants, and certified auditors etc. to provide professional opinions on its decisionmaking. Reasonable expenses incurred therefrom shall be borne by the Company.

Clause 19 The convening procedures and voting method of the meetings of the Committee and the resolutions passed shall be in compliance with relevant laws and regulations, the Articles and the provisions of the Terms.

Clause 20 The Committee shall keep detailed and complete minutes of its meetings. Members present at a meeting shall sign the minutes of that meeting. The meeting minutes shall be kept by the secretary to the Board. Draft and final versions of minutes of meetings of the Committee shall be circulated to all members of the Committee for their comment and record within a reasonable time after

the meeting. Upon signing by members of the Committee who were present at the meeting, the minutes shall be submitted to all members of the Board for circulation.

If the Board does not agree with the opinion of the Committee on matters relating to the selection, appointment, resignation or dismissal of the external auditors, the Company shall include in the Corporate Governance Report a statement by the Committee on its recommendations and the reasons for the Board's dissenting opinions.

Clause 21 Members attending meetings of the Committee and those attending as observers shall keep confidential all matters discussed at the meeting and shall not disclose any relevant information without authorization unless the relevant laws, regulations and/or regulatory authorities require the member to do so.

CHAPTER 6 SUPPLEMENTARY PROVISIONS

Clause 22 For the purpose of the Terms, the expression “at least” includes the numbers following such expression, and “more than half” excludes half.

Clause 23 The terms have been approved by the Board upon consideration and shall become effective from the date on which the overseas listed foreign shares issued by the Company are listed and traded on The Stock Exchange of Hong Kong Limited. The Board shall have the power to amend and interpret the Terms.

Clause 24 Any matters not covered herein shall be implemented in accordance with the relevant laws and regulations, relevant regulatory provisions of the place(s) where the shares of the Company are listed and the Articles. Where the Terms conflict with any relevant laws and regulations, relevant regulatory provisions of the place(s) where the shares of the Company are listed including the Listing Rules, or the Articles, such relevant laws and regulations, relevant regulatory provisions of the place(s) where the shares of the Company are listed including the Listing Rules, and the Articles shall prevail, in which case the Terms shall be amended forthwith and submitted to the Board for consideration and approval.

Clause 25 The Terms are available in both Chinese and English versions. In case of inconsistencies between the two versions, the Chinese version shall prevail.