



CHINA ISOTOPE & RADIATION CORPORATION

中國同輻股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1763)

China Isotope & Radiation Corporation

Terms of Reference of the Audit Committee under the Board of Directors

Chapter I General

- Article 1 In order to establish and regulate the audit systems and procedures of China Isotope & Radiation Corporation (hereinafter referred to as the “**Company**”), as well as facilitating an efficient decision making process of the Board of Directors (hereinafter referred to as the “**Board**”), ensure the Board’s effective supervision of the management and improve the corporate governance structure, the Company sets up the Audit Committee Under the Board of Directors of China Isotope & Radiation Corporation (hereinafter referred to as the “**Committee**”) and hereby formulates these detailed terms of reference (hereinafter referred to as these “**Terms**”) in accordance with the Company Law of the People’s Republic of China, Standards on Corporate Governance of Listed Companies, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “**Hong Kong Listing Rules**”), the Articles of Association of China Isotope & Radiation Corporation (hereinafter referred to as the “**Articles**”), the Procedural Rules of the Board Meetings of China Isotope & Radiation Corporation and other relevant laws, regulations and regulatory documents.
- Article 2 The Committee is a specialized work organ set up by the Board. It is mainly responsible for the communications between internal and external auditors, the supervision and inspection of their works, as well as the risk management of the Company. The Committee shall be accountable to the Board and report their work to the Board.
- Article 3 These Terms shall apply to the Committee and relevant personnel and departments involved in these Terms.

Chapter II Committee Composition and Operating Mechanism

- Article 4 The Committee shall consist of no less than 3 directors. All Committee members shall be non-executive directors of whom more than half shall be independent non-executive directors. The Committee members shall be qualified with professional knowledge of finance or law as well as business experience necessary for the performance of their responsibilities. At least one of the members shall have appropriate accounting or related financial management expertise, and meet eligibility requirements of the Hong Kong Listing Rules for finance professionals in Audit Committee.
- Article 5 Members of the Committee shall be nominated by the chairman of the Board for election by the Board and those nominees receiving affirmative votes from more than half of all directors are duly elected.
- Article 6 The Committee shall have one chairperson who shall be an independent non-executive director. The chairperson is responsible for the overall management of the Committee's works. The chairperson shall be nominated by the chairman of the Board and his/her appointment shall be considered and approved by the Board. The chairperson of the Committee is required to have appropriate accounting and related financial accounting expertise.
- Article 7 The term of office of the Committee is the same as that of the Board, the terms of office of the Committee's members is the same as that of the directors. Members may be reelected when their terms of office expire. Where any member does not serve as director of the Company during his or her term of office, he or she shall be disqualified as a member automatically.
- Article 8 Committee members may tender their resignations to the Board before the expiration of their terms of office. To resign, a committee member shall submit a written resignation to the Board to explain the reasons for his/her resignation and matters needed to be concerned by the Board therein. Where the number of the members of the Committee falls below the minimum number stipulated hereby, the resigning member shall, before the alternate members of the Board assume their posts, continue to exercise related responsibilities.
- Article 9 The Committee members may be changed within their terms of office if proposed by the chairman of the Board and approved after discussion by the Board.
- Article 10 If the number of the Committee members falls below the minimum number as provided herein, the Board shall arrange for making up the shortfall in accordance with the provisions in these Terms.
- Article 11 With the coordination of the office of the Board, the audit department of the Company, acting as the Committee's executive body, provides supports and services to the Committee and takes on any jobs assigned by the Committee.

Chapter III Responsibilities of the Committee

Article 12 The Committee, on behalf of the Board, shall conduct independent assessment and supervision of the compliance, legality and efficiency of the Company's operating activities. The major responsibilities of the Committee shall include:

12.1 To make proposals to the Board regarding appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and handle any questions of its resignation or dismissal;

12.2 To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature, scope and method of the audit and reporting obligations before the audit commences.

For the purpose of independent inspection of external auditors, the Committee shall complete the following tasks: examine the relations between the Company and the auditor (including non-audit services); request materials provided by the auditor so as to be informed of the policies and procedures adopted by the auditor for ensuring its independence and monitoring the enforcements of relevant rules, including rules for change of partners and executives of the auditor; meet with the external auditors at least once without the presence of the Company's management for the purpose of discussing audit fees and related matters, any matters in connection with audit works and other matters raised by the auditor;

12.3 To develop and implement policy on engaging an external auditor to provide non-audit services. For the purpose of this provision, external auditors include any entity that is under common control, ownership or management with the audit firm or any entity that a third party reasonably informed of all relevant information would reasonably conclude to be part of the local or international operation of the audit firm. The Committee should advise the Board on any necessary actions or improvements and make recommendations on steps that can be taken;

12.4 To monitor the truthfulness, completeness and accuracy of the financial statements, annual reports and accounts, half-year reports and quarterly reports of the Company, and to review significant financial reporting opinions contained in such statements and reports. Special attention should be paid to the risk of any frauds, mal-practices and major mistakes in relation to financial statements and reports. When reviewing the Company's annual reports and accounts, half-yearly and quarterly reports before submission of the same to the Board, the Committee should focus particularly on the following matters:

12.4.1 Any changes in accounting policies and practices;

12.4.2 Major judgmental areas;

- 12.4.3 Significant adjustments resulting from audit;
- 12.4.4 The on-going operation assumptions and any qualified opinions;
- 12.4.5 Compliance with accounting standards;
- 12.4.6 Compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting.
- 12.5 Regarding Item 4 above,
 - 12.5.1 The Committee members should liaise with the Board and the senior management. The Committee must meet at least twice a year with the external auditor of the Company; and
 - 12.5.2 The Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts; it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or the auditors;
- 12.6 To examine the Company's financial controls, internal control and risk management systems;
- 12.7 To discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. Considerations should be given to, among others, the adequacy of resources, staff qualifications and experience, training programs of staff and budgets in respect of the Company's accounting and financial reporting function; to supervise the effective implementation of internal control and self-assessment of internal control, coordinate internal control and audit as well as procure the rectification of any internal control defects and other related matters;
- 12.8 To conduct researches on major investigation findings on internal control matters and management's response to these findings as delegated by the Board or on its own initiative;
- 12.9 To be responsible for the communication between internal audit departments and external auditors in order 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 the effectiveness thereof;
- 12.10 To review financial and accounting policies and practices of the Company;

- 12.11 To review Statement Letter of Audit Situations provided by external auditor to the management, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 12.12 To ensure the Board will provide a timely response to the issues raised in Statement Letter of Audit Situations provided by external auditor to the management;
- 12.13 To review the risk management strategies and solutions for key risk management issues of the Company;
- 12.14 To confirm a full list of the Company's connected parties, conduct an overall review of connected transactions and regular review of the overall situations of connected transactions, including a review of the decisions and implementation of all connected transactions of the Company within 10 days following the end of each half-yearly period, and a review of the overall state of all connected transactions of the Company within 30 days following the end of each half-yearly period and report review comments to the Board and Board of Supervisors;
- 12.15 To review the following arrangements set by the Company: Employees of the company may secretly raise concerns about financial reporting, internal control or any other improper conduct that may occur. The Committee should ensure that proper arrangements are in place for the Company to conduct a fair and independent investigation of such matters and take appropriate actions;
- 12.16 The Committee should formulate a whistleblower policy and system to allow employees and other contacts (such as customers and suppliers) who can secretly file their concerns about any possible misconduct of the Company to the Committee;
- 12.17 To report the matters mentioned in these Terms to the Board;
- 12.18 To carry out other matters authorized by Board and other matters in connection with related laws and regulations;
- 12.19 Other responsibilities imposed on the Committee by the listing rules of the place where the securities of the Company are listed, as revised from time to time.
- Article 13 Responsibilities of the chairperson of the Committee shall include:
- 13.1 To convene and preside over the meetings of the Committee;
- 13.2 To supervise and examine the work of the Committee and the implementation of the Committee resolutions;
- 13.3 To sign relevant documents of the Committee;

- 13.4 To report the work of the Committee to the Board;
- 13.5 Other responsibilities as required or granted by the Board.
- Article 14 Major responsibilities of the Committee members shall include:
- 14.1 To attend Committee meeting on time, express opinions on matters discussed and exercise voting rights at the meeting;
- 14.2 To propose topics for discussion in the meeting;
- 14.3 To sit in on or observe relevant meetings of the Company and conduct investigations and researches as well as obtain all necessary reports, documents, materials and other relevant information to perform his/her responsibilities;
- 14.4 To fully understand the responsibilities of the Committee as a whole and responsibilities as a committee member, be familiar with operation and management, business activity and development in connection with his/her responsibilities to ensure his/her ability for the performance of responsibilities;
- 14.5 To guarantee that his/her has devoted sufficient time and attention to perform responsibilities;
- 14.6 Other Responsibilities granted by these Terms.

Chapter IV Meetings of the Committee

- Article 15 Meetings can be classified as regular meetings and extraordinary meetings.
- Article 16 The Committee shall at least hold two regular meetings every year by issuing a notice three days prior to the meeting to all members.
- Article 17 The Committee may convene extraordinary meetings when necessary. In any of the following circumstances, within three days of the occurrence of the relevant facts, the chairperson of the Committee shall issue a notice to convene a meeting:
- (1) in circumstances as deemed necessary by the Board;
 - (2) in circumstances as deemed necessary by the chairperson of the Committee;
 - (3) when proposed by two or more members of the Committee;

Article 18 The audit department shall be responsible for serving the notice of meeting in writing to each Committee member and relevant person invited to attend the meeting three days prior to the date of the meeting (except in special circumstances where advance notification obligations have been exempted provided that the chairperson of the meeting shall elaborate in the meeting). The notice of meeting shall contain information on the method, time, venue, duration and agenda of the meeting, time of issuance of the notice, name and contact information of the contact person of the meeting and other relevant information.

The audit, finance and legal departments and the office of the Board shall prepare and furnish the Committee with relevant materials related to the matters to be discussed and liaise with other entities concerned (including relevant experts of the Company, external specialists, scholars and intermediaries appointed by the Committee during the process of discussion).

Article 19 Upon receipt of the notice, each Committee member shall provide confirmation and any relevant replies via proper means (including but not limited to confirmation of attendance or absence and any other arrangement) in a timely manner.

Article 20 The members of the Committee shall attend the meeting in person. If a member is unable to attend the meeting in person, such member shall, by signing and submitting a letter of proxy, authorize another member of the Committee to attend and express opinion at the meeting on his/her behalf. Such letter of proxy shall expressly state the scope and term of the authorization. No member shall accept any such authorization from two or more other members concurrently.

The member attending meeting on behalf of another member shall exercise the rights within the scope of authorization. If a member does not attend a meeting in person or authorize another member to attend such meeting on his/her behalf, nor does he/she submit any opinion in writing prior to the meeting, he/she shall be deemed to have waived his/her rights.

A member who is unable to attend a meeting in person may also exercise his/her rights by submitting in writing his/her opinion with respect to any matter on the meeting agenda, provided that such written opinion shall be submitted to the audit department before the meeting.

Article 21 If any member does not attend a meeting in person or authorize another member to attend such meeting on his/her behalf, nor does he/she submit any opinion in writing prior to the meeting on two consecutive occasions, or if such member fails to attend in person three-quarters of all meetings of the Committee held during any year, such member shall be deemed incapable of performing the responsibilities of the Committee, and the Board may change the members of the Committee in accordance with these Terms.

Article 22 The Committee meeting may only be held when more than two-thirds members attend the meeting. The meeting shall be presided over by the chairperson of the Committee, who may appoint another member to do so on his/her behalf when he/she is unable to attend the meeting.

Chapter V Discussion Procedures

Article 23 Each Committee member shall have one vote. More than half of the votes of all members are required to pass a resolution. Where the meeting fails to reach a valid resolution due to abstention of any member, relevant issues shall be deliberated by the Board directly.

Article 24 The Committee meeting shall be held in the form of on-site meeting generally and voting shall be conducted by a show of hands or poll. Under special circumstances and on the premise that the members of the Committee are able to sufficiently express their opinion, with the consent of the chairperson of the Committee, meetings may be held by means of remote communication. Where a meeting is conducted by means of remote communication, Committee members shall submit to the Board their written opinions with respect to the matters to be discussed within the period prescribed by the notice of the meeting.

Article 25 Items on the agenda shall be discussed during the meeting of the Committee. The members shall explicitly, independently and fully express their opinion based on their judgment. In case of any different opinions, such different opinions shall be stated in the meeting minutes presented to the Board.

Article 26 The Committee may invite directors, relevant senior management members and experts of the Company or external experts, scholars, intermediary agencies and relevant personnel to sit in on the meeting. Such personnel invited to attend the meeting shall give explanation and elaboration on any issues as required by Committee members.

Article 27 The Committee may, upon approval by the Board, engage external professionals or institutions to provide professional advice as necessary, and all reasonable expenses so incurred shall be borne by the Company.

Article 28 If a member of the Committee is interested in any matter being considered by the Committee, such member shall abstain from the discussion and decision of such matter.

Article 29 All personnel attending the meeting shall have the obligation to keep all matters discussed at the meeting confidential and shall not disclose any information relating thereto without authorization.

Chapter VI Minutes and Summary of the Meetings of the Committee

- Article 30 Minutes shall be prepared for the meetings of the Committee. The minutes shall be prepared by the audit department, which shall include the following information:
- 30.1 Serial number, form, date, venue, and name of the chairperson, of the meeting;
- 30.2 The attendance and absence of members personally or by proxy;
- 30.3 Name and title of each attendee;
- 30.4 Matters to be considered at the meeting;
- 30.5 Main points made by the Committee members or other relevant attendees;
- 30.6 Name of the person taking minutes. The Committee members present at the meeting shall sign the minutes of the meeting of the Committee. The minutes shall be sent to all committee members within a reasonable time for their comments.
- Article 31 After each meeting of the Committee, the executive body of the Committee shall prepare a meeting summary recording the considerations and discussions during the meeting.
- Copies of the meeting summary shall be submitted to the Board of the Company and sent to the members of the Committee, the Board secretary, the audit, finance, legal departments of the Company and other relevant departments and personnel.
- Article 32 Meeting minutes, meeting summary, letters of proxy, written opinions of the members of the Committee and other materials of the meeting shall be kept by the office of the Board in accordance with relevant file management system.

Chapter VII Supplementary Provisions

- Article 33 Unless otherwise stated, terms used in these Terms shall have the same meanings ascribed to them in the Articles.
- Article 34 For any matter not covered in these Terms, or in the event of any contradiction with any provisions of the laws, administrative regulations, regulatory documents or the Articles as amended under lawful procedures promulgated after these Terms become effective, the provisions of such laws, administrative regulations, regulatory documents and the Articles shall prevail. Amendments to these Terms shall be made forthwith and submitted to Board for consideration and approval.
- Article 35 Terms shall become effective and be implemented from the date on which these Terms are approved by the Board and the shares of the Company are first issued and listed in Hong Kong.
- Article 36 The right of interpretation and amendment of these Terms rests with the Board of the Company.