

**CHINA PHARMACEUTICAL GROUP LIMITED**  
**(the “Company”)**

**TERMS OF REFERENCE OF**  
**AUDIT COMMITTEE**

**Composition**

1. The Committee shall consist of not less than three members appointed by the board of directors of the Company (the “Board”) from amongst the non-executive directors of the Company, a majority of whom shall be independent non-executive directors.
2. The chairman of the Committee shall be appointed by the Board and shall be an independent non-executive director.

**Frequency and proceedings of meetings**

3. The Committee shall meet at least twice a year. The external auditor may request a meeting if it considers necessary.
4. At the invitation of the Committee, the Finance Director, the Head of Internal Audit (where an internal audit function exists), the external auditor and any other persons may attend meetings of the Committee.
5. The Committee shall meet with the external auditor at least once a year without the presence of executive directors.
6. The secretary of the Company shall be the secretary of the Committee.
7. The secretary of the Committee shall circulate minutes and reports of the Committee to all members of the Board.
8. Proceedings of meetings of the Committee shall be governed by the provisions contained in the articles of association of the Company in relation to proceedings of meeting of directors.
9. The quorum for a meeting shall be two members.

**Authority**

10. The Committee is authorised by the Board to investigate any activity within its terms of reference and all employees are directed to co-operate the Committee.
11. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.

## Duties

12. The duties of the Committee shall be:

- (a) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment 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;
- (c) to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor the nature and scope of the audit and reporting obligations before audit commences;
- (d) to develop and implement policy on engaging an external auditor to perform 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;
- (e) to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (f) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (g) to review the Company's annual, half-year and quarterly financial reports. In reviewing these reports before submission to the board, the 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 requirements of The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;
- (h) Regarding (g) above:-
  - (i) members of the Committee should liaise with the Board and senior management;

- (ii) the Committee must meet with the external auditor at least twice a year; and
  - (iii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts and should give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or external auditor;
- (i) to review the Company's financial controls, internal controls and risk management systems;
  - (j) 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;
  - (k) 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;
  - (l) to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of controls and management's response;
  - (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
  - (n) 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;
  - (o) to review the group's financial and accounting policies and practices;
  - (p) to review arrangements by which employees of the Company can use in confidence to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair and independent investigation of these matters and appropriate follow-up action;
  - (q) to report to the Board on all matters in these terms of reference; and
  - (r) to consider other topics as requested by the Board.

*April 2012*