

CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED
(the “Company”)

TERMS OF REFERENCE OF AUDIT COMMITTEE

Membership

1. The Committee shall consist of not less than three members appointed by the board of directors of the Company (the “**Board**”), all of whom shall be non-executive directors and a majority of whom shall be independent non-executive directors under the Rules Governing the Listing of Securities in The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). At least one of the members of the Committee should be 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 Listing Rules.

A former partner of the Company’s existing auditing firm is prohibited from acting as a member of the Committee for a period of one year commencing on the later of (a) the date of his ceasing to be a partner of the firm; or (b) the date of his ceasing to have any financial interest in the firm.

2. The Chairman of the Committee shall be appointed by the Board, who shall be an independent non-executive director.

Frequency and proceedings of meetings

3. The Committee should meet at least twice per year. Additional meetings should be held as the work of the Committee demands.
4. In addition, the chairman of the Committee may convene additional meetings at his discretion.
5. The quorum for a meeting shall be two members.
6. The Company Secretary, or in his absence, his representative, shall act as the Secretary of the Committee. The Committee may from time to time appoint any other person with appropriate qualification and experience as the Secretary of the Committee.

Authority

7. The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorized 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.
8. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
9. Where the Board disagrees with the Audit Committee’s view on the selection, appointment,

resignation or dismissal of the external auditor, the Committee will arrange for the Corporate Governance Report in the Annual Report to include an explanation of the Audit Committee's view and the reasons why the Board has taken a different view.

10. The Audit Committee is to be provided with sufficient resources to discharge its duties.

Responsibility

11. The Committee is to serve as a focal point for communication between other directors, the external auditor and the internal auditor as regards their duties relating to financial and other reporting, risk management, internal controls, external and internal audits and such other matters as the Board determines from time to time.
12. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (the "**Group**"), and as to the adequacy of the external and internal audits.

Duties, powers and functions

13. The Committee is to:
 - (a) 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 resignation or dismissal of that auditor;
 - (b) review with the Group's management, external auditor and internal auditor, any statement by the directors to be included in the annual accounts prior to endorsement by the Board;
 - (c) have familiarity with the financial reporting principles and practices applied by the Group in preparing its financial statements;
 - (d) review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process in accordance with the applicable standards, and discuss with the auditor the nature and scope of the audit, (including the engagement letter) and reporting obligations before the audit commences. The Committee should understand the factors considered by the external auditor in determining their audit scope. The external audit fees are to be negotiated by management, and presented to the Committee for review and approval annually;
 - (e) 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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

- (f) obtain from the external auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;
- (g) monitor integrity of the Company's financial statements and annual, quarterly and interim reports and accounts, and to review significant financial reporting judgements contained in them. 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 the audit;
 - (iv) the going concern assumption and any qualifications;
 - (v) compliance with accounting and auditing standards; and
 - (vi) compliance with the Listing Rules and the legal requirements in relation to financial reporting;
- (h) with regard to (g) above:
 - (i) members of the Committee must liaise with the Board and senior management, and the Committee must meet, at least twice a year, with the Company's external auditor; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (i) review the Company's financial controls and, unless expressly addressed by a separate board risk committee, or by the Board itself, review the Company's risk management and internal control (including financial, operational and compliance controls) systems;
- (j) review the draft representation letter prior to approval by the Board;
- (k) evaluate the cooperation received by the external auditor, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditor to the Group's needs; inquire of the external auditor 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 Group's financial statements;
- (l) discuss with the external auditor any recommendations arising from the audit (if necessary in the absence of management); and review the draft recommendations

provided by auditors to management in relation to the findings from the audit (the “**Management Letter**”), any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control including management’s response to the points raised;

- (m) ensure that the Board will provide a timely response to issues raised in the external auditor’s Management Letter;
- (n) review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditor and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;
- (o) review the Group’s financial and accounting policies and practices;
- (p) discuss with management the risk management and internal control systems to ensure that management has performed its duty to have effective systems. The discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company’s accounting and financial reporting function;
- (q) apprise the Board of significant developments in the course of performing the above duties;
- (r) recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (s) consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management’s response to these findings;
- (t) agree with the Board the Company’s policy relating to the hiring of employees or former employees of the external auditor and monitor the applications of such policy. The Committee will consider whether as a result of such hiring there has been any impairment of the auditor’s judgment or independence in respect of an audit;
- (u) review arrangements by which employees, in confidence can 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 such concerns and appropriate follow up action;
- (v) act as the key representative body for overseeing the Company’s relations with the external auditor;
- (w) report to the Board on the above matters; and
- (x) consider other topics, as defined by the Board.

Reporting Procedures

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

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March 2016