

Sinopharm Group Co., Ltd.

Terms of Reference and Rules of Procedure of Audit Committee under the board of directors

Chapter 1 General provisions

- Article 1 In order to enhance the decision-making function of the board of directors of Sinopharm Group Co., Ltd. (hereinafter referred to as the “Company”), strengthen the effective supervision of the board of directors of the Company on managers and improve the structure of corporate governance, the Company has established the Audit Committee under the board of directors and formulated the Rules of Procedure in accordance with the Company Law of the People’s Republic of China (hereinafter as the “Company Law”), these Articles and the relevant provisions with reference to the Code of Corporate Governance for Listed Companies promulgated by China Securities Regulatory Commission. Upon listing of the shares issued by the Company on the Main Board of the Stock Exchange of Hong Kong Limited, the Rules of Procedures shall comply with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as amended from time to time (hereinafter referred to as the “Listing Rules”), other applicable laws and regulations of the Hong Kong Special Administrative Region of the People’s Republic of China. In case of any inconsistencies, contraventions or conflicts arising between any applicable laws, regulations, these Articles, the Listing Rules and the Rules of Procedure, the severest provisions shall prevail under the principle of severity.
- Article 2 The Audit Committee is a special committee established under the board of directors, mainly responsible for examining, reviewing and monitoring the financial information of the Company and its reporting procedures, and responsible for the communication between internal and external auditors of the Company, and is accountable to the board of directors.
- Article 3 The senior management or chief executive referred in the Rules of Procedures shall refer to the general manager, deputy general manager, secretary to the board of directors, joint secretaries of the Company and financial director engaged by the board of directors and other senior management or chief executive recognized by the board of directors.

Chapter 2 Composition

Article 4 The Audit Committee shall comprise at least three members, all of which are current non-executive directors of the Company and the majority of which are independent non-executive directors. At least one member, who is also an independent non-executive director, shall possess the appropriate professional qualifications or appropriate accounting or relevant financial management expertise.

Article 5 Members shall be nominated by the chairman, more than one-half of the independent non-executive directors or more than one-thirds of all directors and subject to election by the board of directors.

Article 6 The Audit Committee shall have one chairman to be acted by an independent nonexecutive director upon election by its members, responsible for presiding over the work of the Audit Committee.

Article 7 The members shall have the same term of office as the directors. Upon expiry of their term, members may be re-elected.

No members may be removed from office without cause prior to the expiry of term of office save as the occurrence of circumstances that requires dismissal as stipulated in the Company Law, these Articles or the Listing Rules.

During which if members no longer act as directors of the Company, they shall automatically lose their office as members and the board of directors shall fill the vacancy in accordance with the provisions under Article 4 to Article 6 above.

Article 8 The committee shall have a secretary to be acted by the company secretary or such person as approved after discussion of the board of directors.

Chapter 3 Duties and powers

Article 9 The Audit Committee shall:

- (a) be primarily responsible for making recommendations to the board of directors 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) 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 shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

- (c) 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 shall report to the board of directors and make recommendations on any matters where action or improvement is needed;
- (d) 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 the statements and reports. In reviewing these reports and statements before submission to the board of directors, 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 other legal requirements in relation to financial reporting;
- (e) Regarding (d) above:
 - (i) members should liaise with the board of directors and senior management. 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 these 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 auditors;
- (f) review the Company’s financial controls, as well as risk management and internal control systems

- (g) discuss the risk management and internal control systems with management to ensure that management has performed its duty to have an effective risk management and internal control systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs received by such staff and budget of the Company's accounting and financial reporting function;
- (h) consider any findings of major investigations of risk management and internal control matters as delegated by the board or on its own initiative and management's response;
- (i) where an internal audit function exists, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor its effectiveness;
- (j) review the Group's financial and accounting policies and practices;
- (k) 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;
- (l) ensure that the board of directors will provide a timely response to the issues raised in the external auditor's management letter;
- (m) report to the board of directors on the matters contained herein;
- (n) consider other topics, as defined by the board of directors; and
- (o) other matters authorized by the board of directors of the Company.

Article 10 The Audit Committee shall be provided with sufficient resources to enable it to perform its functions.

Article 11 Upon consideration of such matters by the Audit Committee under the provisions of Article 9, resolutions shall be proposed and submitted to the board of directors of the Company together with the relevant resolutions and voting results of the meeting.

Article 12 The Audit Committee shall cooperate with the audit activities of the Supervisory Committee.

Chapter 4 Rules and procedures of meeting

- Article 13 Meetings of the Audit Committee shall include regular meetings and interim meetings. Regular meetings shall be held at least twice annually or once bi-annually, whereas the convening of interim meetings shall be proposed by more than two members. The board of directors of the Company shall give at least seven days' notice to all members prior to the meeting, provided that such notice period may be waived with the unanimous consent of all members. The meeting shall be chaired by the chairman and the chairman, if unable to attend, may appoint another member, who is also an independent non-executive director, to act on his behalf.
- Article 14 Meetings of the Audit Committee shall be held by more than two-thirds of the members attending the meeting. Each member shall have one voting right. Resolutions proposed at the meeting shall be passed by more than one-half of all members. In the case of an equality of votes, the chairman shall be entitled to one casting vote.
- Article 15 Members of the Audit Committee who have appointed a proxy to attend and vote on his behalf shall submit the instrument of proxy to the chairman of the meeting. The latest time for submitting the instrument of proxy to the chairman of the meeting shall be prior to voting at the meeting.
- Article 16 The Audit Committee may vote on a show of hands or on a poll at the meetings. The meetings may be held in the form of physical meetings or written communications over the resolutions.
- Article 17 The Audit Committee may invite directors, supervisors, senior management and such persons of relevant departments of the Company to sit in on the meetings if it considers necessary.
- Article 18 The Audit Committee may engage intermediaries to provide professional advice for its decision-making if necessary and the reasonable expenses arising therefrom shall be borne by the Company.
- Article 19 The procedures for convening the meeting, means of voting and resolutions passed at the meeting of the Audit Committee shall comply with the relevant laws, regulations, these Articles and the provisions of the Rules of Procedure.
- Article 20 The Audit Committee shall maintain proper minutes of the meeting where members attending the meeting shall sign on the minutes. The minutes shall be maintained by the secretary to the Audit Committee.
- Article 21 Members attending the meeting shall keep confidential of all matters discussed at the meeting. Save as otherwise provided by the laws, regulations and/or regulatory authorities, unauthorized disclosure of the relevant information shall be prohibited.

Chapter 5 Supplementary provisions

- Article 22 The term “auditors” referred to in the Rules of Procedure shall have the same meaning as “accounting firm”.
- Article 23 The Rules of Procedure shall be formulated by the board of directors of the Company and take effect immediately upon obtaining the approval from the board of directors of the Company.
- Article 24 The right to amendment and interpretation of the Rules of Procedure shall be vested in the board of directors of the Company.