



# CHINA PIONEER PHARMA HOLDINGS LIMITED

中国先锋医药控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 01345)

## Terms of Reference for Audit Committee of the board of directors of the Company

Adopted pursuant to a resolution of the board of directors on 16 October 2013  
and revised on 8 December 2015

### Purpose

1. The purpose of the Audit Committee is to assist the board of directors (the “**Board**”) of China Pioneer Pharma Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) to establish formal and transparent arrangements for considering how the Board will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the Company’s auditors.

### Composition

2. The Audit Committee shall comprise a minimum of three (3) members consisting of non-executive directors. The majority of the Audit Committee must be independent non-executive directors of the Company who should meet the independence requirements set out in Rule 3.13 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). In addition, the Audit Committee must comprise of at least one independent non-executive director with the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.
3. The chairman of the Audit Committee (the “**Chairman**”) shall be appointed by the Board and must be an independent non-executive director.
4. The Audit Committee members shall receive training on Hong Kong Financial Reporting Standards when they are appointed.

5. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one year commencing on the date of his or her ceasing:

- (a) to be a partner of the firm; or
- (b) to have any financial interest in the firm.

whichever is later.

## **Meetings**

6. The company secretary of the Company (the "**Company Secretary**") shall be the secretary of the Audit Committee.

7. Meetings of the Audit Committee shall be summoned by the Company Secretary at the request of the Chairman.

8. The Audit Committee shall meet at least twice annually and as and when including without limitation, (a) any financial information of the Group is to be released; (b) any transaction of the Group that has significant financial consequences is being contemplated; and (c) circumstances require it. The Board, any Audit Committee member and the external auditors may request a meeting if they consider that one is necessary.

9. Unless otherwise specified, the provisions contained in the Company's articles of associations (as amended from time to time) for regulating meetings and proceedings of directors shall apply to the meetings and proceedings of the Audit Committee.

10. The chief financial officer of the Company, the head of internal audit department and a representative of the external auditors shall attend these meetings. Other Board members shall also have the right of attendance. However, at least once a year, the Audit Committee shall meet with the external auditors and the head of internal audit department without executive Board members present.

11. The Chairman (or in his or her absence, a member designated by the Chairman) shall preside at all meetings of the Audit Committee. The Chairman shall be responsible for leading the Audit Committee, including scheduling meetings, preparing agendas and making regular reports to the Board.

12. For regular meetings and as far as practicable in all other cases, notice of meeting and the agenda and accompanying committee papers should be sent, in full, to all members of Audit Committee at least 3 days before the intended date of meeting (or such shorter period as agreed by the members).

## **Quorum**

13. The quorum necessary for the transaction of business shall be two (2), both of whom must be independent non-executive directors, including one which has appropriate professional qualifications or accounting or related financial management expertise as required under Listing Rule 3.10(2). A duly convened meeting of the Audit Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit Committee.

## **Access**

14. The Audit Committee shall have access to management where necessary or upon request of the chief financial officer.
15. The Audit Committee shall be provided with sufficient resources to discharge its duties.

## **Reporting Procedures**

16. The Audit Committee shall evaluate and assess the effectiveness of the Audit Committee and the adequacy of these Audit Committee terms of reference on an annual basis and recommend any proposed changes to the Board.
17. Full minutes of the Audit Committee meetings should be prepared and kept by the Company Secretary. The minutes should record in sufficient detail the matters considered and decisions reached, including any concerns raised by members of the Audit Committee or dissenting views expressed. Draft and final versions of meeting minutes should be sent to all Audit Committee members for their comment and records respectively, in both cases within a reasonable time after the meeting.
18. Minutes of meetings of the Audit Committee and the record of individual attendance at such meetings shall be sent to all members of the Board as soon as practicable after the conclusion of any meeting of the Audit Committee and should be open for inspection at any reasonable time on reasonable notice by any member of the Board.

## **Authority**

19. The Audit Committee is authorised by the Board to conduct any activity contemplated by these terms of reference. It is authorised to seek any information it requires from any employee and all employees, including the Company's chief financial officer, are directed to cooperate as requested by members of the Audit Committee.
20. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise at meetings of the Audit Committee if it considers this necessary.

## **Annual General Meeting**

21. The Chairman shall attend the annual general meeting of the Company prepared to respond to any questions from shareholders on the Audit Committee's activities. In his or her absence, one other member of the Audit Committee or failing this his or her duly appointed delegate should attend.

## **Duties**

22. The duties of the Audit Committee as stated by the Board of Directors are the following:
  - (a) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;
  - (b) to 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 should discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
  - (c) to develop and implement policy on the engaging an external auditor to supply non-audit services. For this purpose, "external auditor" shall include 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 as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
  - (d) to monitor the integrity of the Company's financial statements and annual reports and accounts, half yearly reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the board, the Audit 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 assumptions and any qualifications;
    - (v) compliance with accounting standards; and
    - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

- (e) in relation to paragraph (d) above:
  - (i) members of the Audit Committee should liaise with the Board and the senior management and the Audit Committee must meet, at least twice a year, with the Company's external auditors; and
  - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and 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) to review the Company's financial controls and to review the Company's risk management and internal control systems;
- (g) to review the Company's financial controls, and to review the effectiveness of the Company's risk management and internal control systems, at least once a year;
- (h) to discuss the risk management and internal control systems with the management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (i) to 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;
- (j) 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 the appropriate standing within the Company, and to review and monitor its effectiveness;
- (k) to review the Group's financial and accounting policies and practices;
- (l) to review the external auditors' management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (n) to report to the Board on the matters set out in the Code on Corporate Governance Practices (Appendix 14 of the Listing Rules);

- (o) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (p) to act as the key representative body for overseeing the Company's relationship with the external auditors;
- (q) to review ongoing connected transactions of the Company and ensure compliance with terms of approval by shareholders of the Company; and
- (r) to consider such other matters as the Board may from time to time determine.

## **General**

- 23. The Audit Committee should make available these terms of reference on the Stock Exchange's website and the Company's website.
- 24. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the board has taken a different view.
- 25. The Board may, subject to compliance with the articles of association of the Company and the Listing Rules, amend or supplement these terms of reference provided that no amendment to these terms of reference shall invalidate any prior act and resolution of the Audit Committee which would have been valid had there not been such amendment.