

Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.

Terms of Reference of the Audit Committee

(Adopted on 20 November 2005 and amended and restated on 13 March 2012 and 31 December 2015)

1 CONSTITUTION

The board (the “**Board**”) of directors (the “**Directors**”) of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. (the “**Company**”) has resolved to establish a committee of the Board to be known as the Audit Committee (the “**Audit Committee**”).

2 MEMBERSHIP

2.1 The Audit Committee members shall be appointed by the Board from amongst the Directors and shall consist of not less than three members, all of whom shall be non-executive Directors with a majority of whom shall be independent non-executive Directors and at least one of whom is an independent non-executive Director with appropriate qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”). The quorum for a meeting shall be two members, one of whom must be an independent non-executive Director with appropriate qualifications or accounting or related financial management expertise as required under the GEM Listing Rules.

2.2 A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of 1 year from the date of his ceasing:

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

whichever is later.

2.3 The chairman of the Audit Committee shall be an independent non-executive Director and appointed by the Board.

3 SECRETARY

The company secretary of the Company or any person appointed by the Board shall be the secretary of the Audit Committee.

4 ATTENDANCE OF MEETINGS

4.1 The representative of the Company's auditors has the right to attend the meetings of the Audit Committee. The Audit Committee shall at least meet twice a year with the Board, senior management and auditors. The Audit Committee shall also at least meet once a year with the Company's auditors in the absence of the Board and senior management.

5 FREQUENCY OF MEETINGS

5.1 Meetings of the Audit Committee shall be held not less than twice a year. The external auditors may request a meeting if they consider it necessary.

5.2 All the rules of the articles of association of the Company relating to the holding of and proceedings of Board meetings shall be applicable to the Audit Committee as if all necessary adjustments have been made.

6 AUTHORITY

6.1 The Audit Committee is authorised by the Board to investigate any matters within the scope of this terms of reference. The Audit Committee has the right to seek any information it requires from any employee, and all employees shall cooperate with the Audit Committee when such request is made.

6.2 The Audit Committee shall be provided with sufficient resources to enable it to perform its duties. The Audit Committee may also seek independent professional advice when necessary, at the Company's expense.

7 DUTIES

The duties of the Audit Committee are as follows:

7.1 Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendations 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 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 auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to 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 should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

7.2 Review of the Company's financial information

- (a) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly report, and to review significant financial reporting judgements 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 judgemental 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 GEM Listing Rules and legal requirements in relation to financial reporting;
- (b) Regarding 7.2(a) above:-
- (i) members of the Audit Committee should liaise with the Board and senior management and 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 the 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;

7.3 Oversight of the Company's financial reporting system, internal control procedures and risk management systems

- (a) to review the Company's financial controls, internal control procedures and risk management systems;
- (b) to discuss the internal control procedures and risk management system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function;
- (c) to consider major investigations findings on internal control and risk management matters as delegated by the Board or on its own initiative and management's response to these findings;
- (d) to make recommendations to the Board for the improvement of the Group's risk management and internal control procedures and system;

- (e) 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;
- (f) to review the group's financial and accounting policies and practices;
- (g) to 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;
- (h) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (i) to report to the Board on matters in code provision C.3 of Appendix 15 of the GEM Listing Rules;
- (j) to report to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements); and
- (k) to consider other topics, as defined by the Board.

7.4 Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company 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.

7.5 The Audit Committee should also be required to:-

- (a) 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. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (b) to act as the key representative body for overseeing the Company's relations with the external auditor.

8 REPORTING PROCEDURES

- 8.1 Minutes of meetings of the Audit Committee shall be kept by the secretary of the Audit Committee and shall be open for inspection at any reasonable time on reasonable notice by any Director.
- 8.2 Minutes of meetings of the Audit Committee shall record in sufficient detail the matters considered and decisions reached, including any concerns raised by the Directors or dissenting views expressed. Draft and final versions of minutes shall be sent to all members of the Audit Committee for their comment and records respectively, within a reasonable time after the meeting is held. The signed minutes shall be submitted to the Board.

9 ANNUAL GENERAL MEETING

The chairman of the Audit Committee, or in his absence, another member of the Audit Committee or failing this his duly appointed delegate shall attend the annual general meeting of the Company and be prepared to respond to questions at the meeting in relation to the work and responsibilities of the Audit Committee.