



山東威高集團醫用高分子製品股份有限公司

Shandong Weigao Group Medical Polymer Company Limited*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code : 1066)

Terms of Reference for Audit Committee

I. OBJECTIVE

The Audit Committee (the “Committee”) of Shandong Weigao Group Medical Polymer Company Limited (the “Company”) is to assist the board of directors of the Company (the “Board”) (i) to ensure the effectiveness of the internal control system and also in compliance with the Company’s obligations (including the obligations of external financial results announcement) under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as modified from time to time and applicable laws and regulations; and (ii) to oversee the completeness of the financial statements of the Company.

The Committee shall also represent the Board to be directly responsible for (i) the selection, overseeing the engagement of external auditors of the Company and determination of their remuneration, (ii) the assessment of the independence and qualifications of external auditors; and (iii) overseeing of the performance of the internal audit functions of the Company and external auditors.

II. MEMBERS

1. The Committee comprises five non-executive Directors appointed by the Board, including at least four independent non-executive Directors. At least one of the independent non-executive Directors shall possess the applicable professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.
2. One independent non-executive Director of the five Members appointed by the Board shall be the Chairman of the Committee.
3. The Secretary of the Board of the Company shall be the secretary of the Committee.
4. All Members are appointed by the Board and can be removed by the Board at its sole discretion. The Board may from time to time vary the composition of the Committee as may be required by the Listing Rules or the rules of any other stock exchange in respect of which the shares of the Company are listed or quoted, or the requirements of other codes, rules and regulations as may be prescribed by Hong Kong Securities and Futures Commission or any other applicable regulatory authority from time to time (the “Applicable Rules”).

III. FREQUENCY AND PROCEDURES OF CONVENING A MEETING

1. Frequency

The Committee shall meet at least twice a year. Additional meetings may be held as and when the Committee deems appropriate.

2. Notice

The notice of any meeting of the Committee has to be given at least 7 days prior to any such meeting being held, unless all Members unanimously waive such notice. Irrespective of the length of notice being given, the attendance of a meeting by a Member shall be deemed to waive the requisite period of notice by that Member. No requisite notice period is required if a Committee meeting is adjourned for less than 14 days.

3. Quorum

- (a) The quorum of the Committee shall be any two Members.
- (b) Other members of the Board may also attend the meetings of the Committee but only Members of the Committee are entitled to vote at such meetings.

4. Resolutions

- (a) Resolutions of the Committee shall be passed by a majority of votes. Meetings can be held in person, by telephone or by video conference.
- (b) A resolution in writing signed by all the Members shall be as valid and legally effective as if it has been passed at a meeting of the Committee duly convened and held.

5. Minutes

The secretary of the Committee shall keep full records of the minutes of all Committee meetings. Draft minutes of the meetings of the Committee shall be sent to all Members within a reasonable time after the meeting for their review. The final version of the minutes duly signed by the Chairman shall be sent to all Members for their records.

IV. DUTIES, AUTHORITIES AND FUNCTIONS

1. Relationship with the Company's auditors

(i) To be primarily responsible for making recommendations to the Board regarding the appointment, reappointment and removal of external auditors; to formulate the remuneration and terms of engagement of external auditors and to propose the Board to submit the same at the general meeting for consideration. To approve the remuneration and terms of engagement of the external auditors when the general meeting is authorizing the Board to determine the remuneration of the auditors; and to address any questions regarding the resignation or retirement of that auditor;

(ii) To review and oversee the independence and objectivity of engaging external auditors and the effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the auditors regarding the nature and scope of the audit and the relevant reporting obligations before commencing the audit;

(iii) To develop and implement policy in engaging external auditors to provide non-auditing services. For the purpose of this requirement, external auditors includes any entity that is under common control, ownership or management with that 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 domestically or internationally. The Committee shall report to the Board, in respect of any matters in which it considers that an action or improvement is needed and to make recommendations as to the steps to be taken;

2. Review of financial information of the Company

(i) To monitor the completeness of the financial statements of the Company and the annual report and accounts and half-year report and quarterly report of the Company and to review the significant opinion of the respective financial reporting contained therein. In this regard, in reviewing the relevant statements and reports of the respective annual report and accounts, half-year report and quarterly report of the Company before submitting the same to the Board, the Committee shall focus particularly on:

- (a) any changes in the accounting policies and practices;
- (b) major areas when important judgment is involved;
- (c) significant adjustments as a result of the audit;
- (d) the going concern assumptions of the Company and any qualified opinions;
- (e) whether they are in compliance with the accounting standards;
- (f) whether they are in compliance with the Listing Rules and other legal requirements in respect of financial reporting;

(ii) For the purpose of (1) above:

- (a) Members of the Committee shall liaise with the Board, senior management of the Company and the person appointed as the qualified accountant of the Company. The Committee must meet with the auditors of the Company at least twice a year;
- (b) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in those reports and accounts, and shall give due consideration to any matters that are being raised by the qualified accountant, compliance officer or auditors of the Company.

(iii) Oversee the financial reporting system and internal control procedures of the Company

- (a) to review the financial control, internal control and risk management systems of the Company;
- (b) to discuss the internal control system with the management to ensure that the management has already performed its duties to establish an effective internal control system;
- (c) to study proactively or at the delegation of the Board regarding the important investigation findings of the relevant internal control matters and the management's response;
- (d) to ensure smooth co-ordination between internal and external auditors of the Company, and also to ensure that the internal audit function is equipped with adequate resources and has appropriate standing within the Company, and to review and oversee the effectiveness of internal audit functions;
- (e) to review the financial and accounting policies and practices of the Group;

- (f) to review the “management letter” of external auditors to the management, any material queries raised by the auditors to the management regarding the accounting records, financial accounts or systems of control and the management’s response;
- (g) to ensure that the Board will promptly reply to the issues raised in the “management letter” of external auditors to the management;
- (h) to report to the Board on the matters as set out in this system;
- (i) to consider other issues as defined by the Board.

V. CORPORATE GOVERNANCE DELEGATED BY THE BOARD

To ensure upholding good corporate governance including but not limited to:

- (a) the development and review of the policies and practices of the Company on corporate governance and make recommendations to the Board;
- (b) the review and overseeing of the training and continuous professional development of the Directors and senior management;
- (c) the review and overseeing of the policies and practices of the Company in compliance with the legal and regulatory requirements;
- (d) the development, review and overseeing of the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
- (e) the review regarding the compliance by the Company with the Corporate Governance Code (Appendix 14 of the Listing Rules) and the disclosure requirements of Corporate Governance Report.

VI. OTHER DUTIES

- (a) To ensure the practices and procedures of the Company in respect of the related party transactions are adequate for complying with the requirements of the Listing Rules and Applicable Rules, and to review these Terms of Reference from time to time, as appropriate, and make recommendations to the Board for any necessary amendments;
- (b) to report to the Board regarding the matters in these Terms of Reference and in the event that during the monitoring process by the Committee, matters are revealed that required concern or pending for improvement, the Committee shall make recommendations to the Board to address the issue or improve the matters;
- (c) to undertake that, at the reasonable request that may be raised by the Board, the subsidiary companies and associate companies that receive the management services provided by the Company shall be in compliance with all applicable supervisory and other rules and regulations; and
- (d) to consider other subjects or issues as defined or referred to the Committee by the Board.

VII. PUBLICATION OF THESE TERMS OF REFERENCE

A copy of these Terms of Reference will be made available to any person without charge upon request and these Terms of Reference will be published at the websites of the Company and Hong Kong Exchanges and Clearing Limited respectively.

Shandong Weigao Group Medical Polymer Company Limited

15 March 2012