

# **Xuanzhu Biopharmaceutical Co., Ltd.**

## **Terms of Reference and Rules of Procedure of the Audit Committee of the Board**

### **CHAPTER 1 GENERAL PROVISIONS**

- Clause 1** In order to establish and regulate the audit system and procedure of Xuanzhu Biopharmaceutical Co., Ltd. (hereinafter referred to as the “**Company**”) and facilitate the efficient decision making process of the board of directors (hereinafter referred to as the “**Board**”) for its effective supervision of the management and to improve the corporate governance structure of the Company, the audit committee (hereinafter referred to as the “**Committee**”) under the Board of the Company is established with the Terms of Reference and Rules of Procedure of the Audit Committee of the Board of Xuanzhu Biopharmaceutical Co., Ltd. (《軒竹生物科技股份有限公司董事會審計委員會職責和議事規則》) (hereinafter referred to as these “**Terms**”) in accordance with the Company Law of the People’s Republic of China and other relevant laws, administrative regulations, normative documents (collectively referred to as the “**Laws and Regulations of the PRC**”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “**Hong Kong Listing Rules**”) and the Articles of Association of Xuanzhu Biopharmaceutical Co., Ltd. (hereinafter referred to as the “**Articles of Association**”).
- Clause 2** The Committee is a special committee under the Board, which is mainly responsible for the coordination between internal and external auditors, supervision and inspection of their work as well as the review of risk management and internal control of the Company. The Committee shall be accountable for and report to the Board.
- Clause 3** These Terms shall apply to the Committee and relevant personnel and departments referred to herein.

### **CHAPTER 2 COMPOSITION OF THE COMMITTEE**

- Clause 4** The Committee shall consist of no less than three directors. All Committee members shall be non-executive directors, with a majority of whom being independent non-executive directors. All Committee members shall possess professional knowledge of financial or legal and commercial experience necessary for performing their duties. At least one of the members shall have the appropriate professional qualification, accounting or relevant financial management expertise as required by the Hong Kong Listing Rules in respect of the qualifications of financial professionals of the Committee.
- The Board shall conduct regular evaluation of the independence and performance of Committee members and replace unqualified members when necessary. Former partners of the existing external auditor of the Company shall be prohibited from acting as a member of the Committee for a period of two years from the date of he/she ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is the latter.

- Clause 5** Members of the Committee shall be nominated by the chairman of the Board and a simple majority of the independent non-executive directors or more than one-third of all directors, and shall be elected by the Board and approved by a simple majority of all directors.
- Clause 6** The Committee shall have a chairman who shall be an independent non-executive director. The chairman is responsible for the overall management of the Committee. The chairman shall be nominated by the chairman of the Board and appointed upon approval of the Board. The chairman of the Committee shall have appropriate accounting or relevant financial and accounting expertise.
- Clause 7** The term of office of the Committee shall be the same as that of the Board of the same session, and the term of office of a Committee member shall be the same as his/her term of office as a director. Committee members are eligible for re-election upon expiry of their term of office. A Committee member shall, *ipso facto*, cease to be a member when he/she is no longer a director of the Company or (for a member who is an independent non-executive director) cease to have the independence required by the Hong Kong Listing Rules. The causal vacancy shall be filled by the Board in accordance with the above provisions.
- Clause 8** A Committee member may tender his/her resignation to the Board before the expiry of his/her term of office by giving a written notice to explain the reason for resignation and other matters which need to be brought to the attention of the Board of the Company. If the number of members falls below the minimum number as provided herein, the resigning member shall continue to perform his/her duties until the appointment of a substitute member to fill his/her place by the Board.
- Clause 9** Adjustments may be made to the members of the Committee during their term of office if proposed by the chairman of the Board and approved by the Board.
- Clause 10** Where the composition of the Committee fails to meet the requirements of these Terms, the Board shall immediately make an announcement to specify the details and reasons for the failure to meet the requirements in accordance with the Hong Kong Listing Rules, and shall rectify the situation within three months from the date of failure to meet the relevant requirements in accordance with these Terms. The substitute member shall hold office until the expiry of his/her term of office as a director.
- Clause 11** Under the coordination of the office of the Board, the audit department of the Company, as the working body of the Committee, shall provide support and services to the Committee and undertake the relevant duties assigned by the Committee.

### **CHAPTER 3 DUTIES OF THE COMMITTEE AND ITS MEMBERS**

- Clause 12** The Committee, on behalf of the Board, shall conduct independent assessment and supervision on the compliance, legality and efficiency of the operation of the Company. The primary duties of the Committee shall include:
- (1) to make recommendations to the Board regarding the appointment, reappointment and removal of external auditors, approve the remuneration and terms of engagement of the external auditors, and deal with all matters of the resignation or dismissal of external auditors;

- (2) to monitor and evaluate the independence and objectivity of external auditors and the effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the external auditors the nature, scope and method of the audit and reporting obligation before the commencement of the audit.

For the purpose of independent inspection of external auditors, the Committee shall perform the following:

1. to consider the relationships between the Company and the auditors (including non-audit services);
  2. to obtain from the auditors annually information regarding the maintenance of their independence and the compliance of relevant requirements, including the requirements on the change of partners and executives of external auditors;
  3. to meet the external auditors at least once a year without the presence of the management for the discussion of audit fees, any issues arising from the audit and any other matters the auditor may wish to raise;
- (3) to formulate and implement policies relating to the engagement of external auditors for non-audit services. For the purpose of this clause, external auditors shall include any entity under common control, ownership or management with the auditors and any entity that a reasonable and informed third party would reasonably conclude to be part of the local or international operation of the auditors. The Committee shall make recommendations to the Board on necessary actions or improvements and measures to be taken;
  - (4) to examine the completeness of the financial statements, annual reports and accounts, interim reports and quarterly reports (if any) of the Company, and review material opinions regarding financial reporting in such statements and reports. Special attention shall be paid to the risk of any fraud, malpractice and major mistakes in relation to financial statements and reports. In reviewing the annual reports and accounts, interim reports and quarterly reports of the Company before submitting the same to the Board, the Committee shall focus on the following matters:
    1. any changes in accounting policies and practices;
    2. issues involving critical judgments;
    3. significant adjustments resulting from audit;
    4. the going concern assumption and qualified opinions;
    5. compliance with accounting standards;
    6. compliance with the Hong Kong Listing Rules and other laws in relation to financial reporting.

- (5) for the purpose of item (4) above:
1. the Committee members shall discuss it with the Board and the senior management of the Company. The Committee shall meet with the external auditor at least twice a year;
  2. the Committee shall consider any significant or unusual matters that are, or may need to be, disclosed in such reports and accounts, and shall give consideration to the matters raised by the accounting and financial reporting staff, compliance officer of the Company or the external auditors;
- (6) to monitor the financial control, internal control and risk management system of the Company;
- (7) to discuss with the management on risk management and internal control system to ensure that the management has performed its duties to maintain an effective risk management and internal control system. Considerations shall be given to, among others, the adequacy of resources, qualifications, experience and training of staff and budgets pertaining to the accounting and financial reporting functions;
- (8) to consider major investigation findings on risk management and internal control on its own initiative or as delegated by the Board and the management's response to these findings;
- (9) to monitor internal audit system of the Company; to ensure that the internal audit system is implemented with sufficient resources and has appropriate standing in the Company; and to review and supervise the effectiveness of internal audit system;
- (10) to facilitate communication between the internal audit department and external auditor, so as to coordinate their audit work;
- (11) to review the financial and accounting policies and practice of the Company;
- (12) to review the management letter to the management from external auditors, major queries raised by the external auditors regarding accounting records, financial accounts or control systems and the response of the management;
- (13) to ensure that the Board will provide a timely response to the issues raised in the management letter from external auditors;
- (14) to monitor the following arrangements of the Company: the employees of the Company may, in confidence, raise concerns about potential irregularities in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for the Company to conduct fair and independent investigations and to take necessary actions accordingly;

- (15) to act as the primary representative between the Company and the external auditors and to monitor their relationship;
- (16) to review the risk management strategies of the Company and solutions for major risk management issues;
- (17) to verify the list of connected persons (as defined in the Hong Kong Listing Rules) of the Company and conduct a general audit of all connected transactions and regular examination of connected transactions of the Company, including a review of the decisions on connected transactions of the Company and their implementation within ten days following the end of each interim period, and a general review of all connected transactions of the Company within 30 days following the end of each interim period. The Committee shall report to the Board and the board of supervisors of the Company the results of such reviews;
- (18) to assess and determine the environmental, social and governance risks of the Company, and to ensure the Company's establishment of an appropriate and effective control system for environmental, social and governance risks and internal control system;
- (19) to report to the Board of matters required by these Terms;
- (20) to deal with other matters as authorized by the Board of the Company and as required by the Laws and Regulations of the PRC;
- (21) to perform other duties as required by the Hong Kong Listing Rules regarding the duties of the Committee, as amended from time to time.

**Clause 13** Duties of the chairman of the Committee shall include:

- (1) to convene and preside over meetings of the Committee;
- (2) to supervise and examine the performance of the Committee and implementation of resolutions of the Committee;
- (3) to sign the relevant documents of the Committee;
- (4) to report on the work of the Committee to the Board of the Company;
- (5) to attend the annual general meeting of the Company and reply to enquiries from shareholders on matters relating to the duties of the Committee.

Where the chairman of the Committee is unable to attend the annual general meeting, other members or proxies so duly appointed shall attend the meeting on his/her behalf;

- (6) to perform other duties as required or conferred by the Laws and Regulations of the PRC, the Hong Kong Listing Rules, these Terms and the Board.

**Clause 14** Main duties of a Committee member shall include:

- (1) to attend meetings of the Committee punctually, and express opinions and vote on the matters discussed thereon;
- (2) to propose matters to be discussed at the meetings of the Committee;
- (3) to sit in or observe relevant meetings of the Company, conduct studies and researches, and obtain reports, documents, materials and other relevant information necessary for performing his/her duties;
- (4) to fully understand the duties of the Committee as a whole and those as a member of the Committee, and acquaint himself/herself with the operation, management, business activities and development of the Company to ensure his/her capacity for the performance of duties;
- (5) to guarantee that he/she has devoted sufficient time and attention to perform his/her duties;
- (6) to perform other duties as required by the Laws and Regulations of the PRC, the Hong Kong Listing Rules and these Terms and other duties conferred by the Board.

#### **CHAPTER 4 MEETINGS OF THE COMMITTEE**

**Clause 15** Meetings of the Committee shall be classified as regular meetings and extraordinary meetings.

**Clause 16** The Committee shall hold at least two regular meetings every year and the written notice of the meeting shall be served to all members three days prior to the meeting. One of the regular meetings shall be held before the convening of Board meeting for the review of annual report every year.

**Clause 17** The Committee may convene extraordinary meetings when necessary. The chairman of the Committee shall issue a notice to convene a meeting within three days from the date of actual occurrence of any of the following circumstances:

- (1) where the Board deems it necessary;
- (2) where the chairman of the Committee deems it necessary;
- (3) where it is proposed by more than two members of the Committee.

An extraordinary meeting shall be held at the request of the external auditors of the Company.

**Clause 18** The audit department shall issue the notice of meeting in writing to each of the Committee members and relevant persons being invited to attend the meeting three days prior to the date of the meeting (except in special circumstances where the requirement of a prior notice is exempted, provided that the presider of the meeting shall provide explanation at the meeting). The notice of meeting shall contain information on the form, time, venue, duration and agenda of the meeting, time of issuance of the notice, name and contact information of the contact person of the meeting and other relevant information.

The audit, finance and legal departments of the Company and the office of the Board shall prepare and provide the Committee with relevant materials related to the matters to be considered, and liaise with the parties involved (including relevant experts of the Company, external experts, scholars and intermediaries appointed by the Committee during a meeting).

**Clause 19** Upon receipt of the notice, all Committee members shall promptly provide confirmation and relevant replies (including but not limited to the confirmation of attendance and scheduling) via proper means.

**Clause 20** All members of the Committee shall attend the meeting in person. If a member is unable to attend the meeting in person for any reason, he/she shall, by signing and submitting a letter of proxy, authorize another member of the Committee to attend and express opinion at the meeting on his/her behalf. Such letter of proxy shall expressly state the scope and term of the authorization. Each member shall appoint only one other member as his/her proxy to exercise the voting right on his/her behalf. Where a member authorizes two or more other members to exercise the voting right on his/her behalf, such authorization shall be invalid. In addition, no member shall accept any such authorization from two or more other members concurrently.

The members attending a meeting on behalf of another member shall exercise the rights within the scope of authorization. If a member does not attend a Committee meeting in person or authorize another member to exercise the rights on his/her behalf, nor does he/she submit any opinion in writing prior to the meeting, he/she shall be deemed to have waived his/her rights.

A member who is unable to attend a meeting in person may also exercise his/her rights by submitting in writing his/her opinion with respect to any matter on the meeting agenda, provided that such written opinion shall be submitted to the audit department no later than the meeting being convened.

**Clause 21** If a Committee member does not attend a meeting in person or authorize another member to attend such meeting on his/her behalf, nor does he/she submit any opinion in writing prior to the meeting on two consecutive occasions, or if such member fails to attend in person three-fourths of all meetings of the Committee held during any year, such member shall be deemed incapable of performing the duties as a Committee member, and the Board may replace him/her in accordance with these Terms.



**Clause 22** The quorum of a Committee meeting shall be more than two-thirds of the Committee members. Meetings shall be presided over by the chairman of the Committee, who may appoint another member to act on his/her behalf when he/she is unable to attend the meeting. If the chairman of the Committee neither performs his/her duties nor designates another member to act on his/her behalf, any member may report the same to the Board of the Company, and the Board of the Company shall appoint another member who is an independent non-executive director to perform the duties of the chairman of the Committee.

## **CHAPTER 5 PROCEDURES OF MEETINGS**

**Clause 23** Each member of the Committee shall have one vote. A resolution of the meeting shall be passed by a simple majority of the votes of all members. In the event that the meeting fails to reach a valid resolution due to abstention of any member, the relevant matter shall be considered directly by the Board.

**Clause 24** Meetings of the Committee shall be convened by way of on-site meeting or video conference or teleconference in principle. Should an on-site meeting, video conference or teleconference is unable to be held in case of any emergency, force majeure and other special reasons, the meeting may be held by means of correspondence. In such case, the Committee members shall submit to the Board their written opinions with respect to the matters to be considered within the period prescribed by the notice of the meeting.

**Clause 25** Voting at a meeting of the Committee shall be conducted by a show of hands or by poll. Where any member fails to sign the resolutions made at a teleconference or video conference in real time, the said member may orally give opinions first and responsively affix the written signature thereof as soon as possible, provided that there is no discrepancy between the opinions expressed by such member subsequently in signing the written resolutions and the opinions orally expressed by him/her at the meeting.

**Clause 26** All items on the agenda shall be considered during the meeting of the Committee, and the Committee members shall explicitly, independently and fully express their opinions based on their own judgment. In case of any different opinions, such opinions shall be stated in the meeting summary to be submitted to the Board.

**Clause 27** The Committee may invite directors, supervisors, relevant senior management members and relevant experts of the Company, external experts, scholars, intermediary agencies and other persons to sit in at the meeting. Such persons being invited shall give explanation and elaboration on any issues as required by any Committee member.

**Clause 28** Where it deems necessary, the Committee may, upon approval by the Board, seek for professional advice of external professional personnel or organizations. Any reasonable cost so incurred shall be borne by the Company.



- Clause 29** Committee members shall abstain from considering and voting on matters in connection with which he/she has an interest.
- Clause 30** All persons attending the Committee meetings shall keep all matters considered at the meetings confidential and shall not disclose such information without authorization.

## **CHAPTER 6 MINUTES AND SUMMARY OF THE COMMITTEE MEETINGS**

- Clause 31** Minutes shall be kept for all meetings of the Committee, which shall be prepared by the audit department and shall contain the following information:

- (1) serial number, form, date, venue and name of the presider of the meeting;
- (2) attendance and absence of members in person and by proxy;
- (3) name and title of each attendee;
- (4) agenda of the meeting;
- (5) key points made by the Committee members and other relevant attendees;
- (6) name of the minutes taker;
- (7) abstention of any interested member (if any), which shall be specified in the minutes or the relevant resolutions.

All Committee members present at the meeting shall sign the minutes. The minutes shall be circulated to all Committee members within a reasonable time for their comments.

- Clause 32** After each meeting of the Committee, the audit department shall prepare a meeting summary recording the considerations and discussions of the meeting.

Copies of the meeting summary shall be submitted to the Board of the Company and dispatched to all Committee members, secretary to the Board, the audit, financial and legal department of the Company and relevant departments and personnel.

- Clause 33** Meeting minutes, meeting summary, letters of proxy, written opinions of the members of the Committee and other materials of the meeting shall be kept by the office of the Board in accordance with relevant file management system of the Company.

## CHAPTER 7 SUPPLEMENTARY PROVISIONS

- Clause 34** Unless otherwise stated, terms used herein shall have the same meanings ascribed to them in the Articles of Association.
- Clause 35** “**More than**” and “**within**” as referred to herein shall include the number while the word “**over**” shall not include the number itself.
- Clause 36** For any matter not covered in these Terms, or in the event of any contradiction with any laws, administrative regulations, normative documents, relevant regulatory rules of the place where the shares of the Company are listed or the Articles of Association as amended under lawful procedures promulgated after these Terms become effective, the laws of the PRC, administrative regulations, normative documents, relevant regulatory rules of the place where the shares of the Company are listed and the Articles of Association shall prevail and these Terms shall be amended in a timely manner.
- Clause 37** The rights of interpretation and amendment of these Terms shall be vested in the Board of the Company.
- Clause 38** Subject to the consideration and approval by the Board, these Terms shall take effect and come into force on the date of the initial listing of the Company on The Stock Exchange of Hong Kong Limited. Upon the effective date of these Terms, the original Working Rules of the Audit Committee of the Board (《董事會審計委員會工作規則》) of the Company shall automatically become invalid.
- Clause 39** These Terms are available in both Chinese and English. In case of discrepancy, the Chinese version shall prevail.