

# **Jiangsu Hengrui Pharmaceuticals Co., Ltd.**

## **江蘇恒瑞醫藥股份有限公司**

### **Terms of Reference of the Audit Committee**

#### **Chapter 1 General Provisions**

**Article 1** In order to enhance the decision-making functions of the board (the “Board”) of directors (the “Directors”) of Jiangsu Hengrui Pharmaceuticals Co., Ltd. (“the Company”), to conduct pre-audit and professional audit so as to ensure effective supervision over the management by the Board and to enhance its corporate governance structure, in accordance with the Company Law of the PRC, the Code of Corporate Governance for Listed Companies, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Listing Rules of the Hong Kong Stock Exchange”), the Articles of Association, the Rules of Procedure of the Board and other relevant regulations, the Company has set up an audit committee (the “Audit Committee” or “Committee”) under the Board and formulated these terms of reference (the “Rules”).

**Article 2** The Audit Committee of the Board is a special working body established by the Board in accordance with the resolutions of the shareholders. Its main functions are to assist the Board in independently reviewing the Company’s financial position and the implementation and effectiveness of its internal control systems, exercise compliance control over the Company’s operation management and investment business, review and supervise the internal audit work and findings of the Company, and conduct independent communication, supervision and verification with internal and external auditors.

#### **Chapter 2 Composition**

**Article 3** The Audit Committee shall consist of three to seven Non-executive Directors, who shall be the Directors who are not senior management of the Company, of whom independent non-executive Directors shall account for the majority. Of which, an Independent Director who is an accounting professional shall serve as a convener. Committee members should possess appropriate professional knowledge and business experience in finance, or law, etc. compatible with their duties, and at least one member should possess appropriate professional qualifications or accounting or related financial management expertise to meet the qualification requirements for financial professionals on the Audit Committee of the stock exchange where the Company’s shares are listed.

**Article 4** Members of the Audit Committee shall be nominated by the chairman of the Board, more than one-half of the Independent Directors or one-third of all Directors, and shall be elected by the Board.

The former partner of the current external audit firm of the Company shall not be a member of the Committee within two years from the following date (whichever is later):

- (I) the date on which the former partner ceased to be a partner of such accounting firm; or
- (II) the date on which the former partner ceased to enjoy the financial benefits of such accounting firm.

**Article 5** The Audit Committee shall have a chairman (convener), who shall be an Independent Director member of the Board as an accounting professional who is responsible for presiding over the work of the Committee. The chairman shall be elected from among the members and shall be subject to the Board's approval.

**Article 6** The Audit Committee shall have the same term of office as that of the Board. Members may, upon the expiry of their term of office, be re-appointed for consecutive terms if re-elected. Members of the Audit Committee shall not be removed from office without cause prior to the expiration of their terms of office, unless under any circumstance that prohibits them from holding office as stipulated by laws and regulations, the securities regulatory rules of the place where the Company's shares are listed or the Articles of Association. During his/her term of office, if any member ceases to serve as a Director of the Company or any member who should be an Independent Director no longer possesses the independence or qualifications required by laws, regulations, regulatory documents, the securities regulatory rules of the place where the shares of the Company are listed or the Articles of Association, such member shall automatically lose the membership of the Committee, and the Committee shall fill the vacancy in accordance with the provisions of Articles 3 to 5 above.

**Article 7** The Audit Committee shall have an audit working unit as a daily working body, which is responsible for the liaison of routine work and organization of meetings.

### **Chapter 3 Duties and Authorities**

**Article 8** The main duties and authorities of the Audit Committee are as follows:

(I) supervising and evaluating the work of the external audit firm

1. to propose to the Board the engagement, renewal and change of the external audit firm, make recommendations to the Board on the remuneration and terms of engagement of the external audit firm, and deal with any issues concerning the resignation or the dismissal of the audit firm;
2. to review and monitor the external audit firm's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and the Committee shall discuss with the audit firm about the nature and scope of the audit and the relevant reporting responsibilities before the audit commences. To conduct an investigation on the independence of the external audit firm, the Committee must undertake the following tasks: examine the relationship between the Company and the audit firm (including non-audit services); annually request information from the audit firm to understand their policies and procedures concerning independence maintenance and supervision of relevant regulations, including provisions regarding the change of the audit firm's partners and staff; and hold at least one meeting annually with the external audit firm in the absence of the management to discuss matters related to audit fees, any issues arising from audit work, and other matters raised by the audit firm;

3. to formulate and implement policies on engaging an external audit firm to provide non-audit services. For this purpose, the “external audit firm” includes any entity that is under common control with, ownership of or management of 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 Committee shall report and make recommendations to the Board on any matters where action or improvement is needed.
- (II) providing guidance for the internal audit work, supervising the Company’s internal audit system and its implementation, and urging the rectification of major issues.
- (III) reviewing the Company’s financial reports

To review and monitor the truthfulness, completeness and accuracy of the financial statements and the annual reports and accounts, interim reports and quarterly reports of the Company, and to review any significant financial reporting opinions contained in the statements and reports, paying particular attention to whether there is any probability of fraud, corruption and material misstatement in relation to the financial statements and reports. In this regard, the Committee, in submitting such statements and reports to the Board, shall review the following matters in particular:

1. any changes of accounting policies and practices;
2. where significant judgements are involved;
3. significant adjustments resulting from audit;
4. the going concern assumptions and any qualified opinions;
5. compliance with accounting standards;
6. compliance with the other securities regulatory rules and legal requirements of the places where the Company’s shares are listed in relation to financial reporting.

For the purpose of item (3) above, the Committee members shall liaise with the Board and the Company’s senior management. The Committee shall meet at least twice annually with the Company’s external audit firm. The Committee shall consider any significant or unusual matters reflected or required to be reflected in such reports and accounts, and shall give due consideration to any matters raised by the Company’s accounting and financial reporting staff, compliance department or external audit firm.

(IV) assessing the effectiveness of internal controls, reviewing and monitoring the effective operation of the Company's financial reporting, internal control and risk management systems

1. to examine and review the Company's financial controls, internal control and risk management systems;
2. to discuss the risk management and internal control system with the management to ensure that the management has performed its duty to have an effective system. This discussion should include the adequacy of the Company's resources, staff qualifications and experience, the adequacy of the training courses and related budgets received by the staff for the accounting and financial reporting functions;
3. to consider major investigation findings on risk management and internal control matters and the management's response to these findings proactively or as delegated by the Board;
4. to oversee the effective implementation of internal control and the self-evaluation of internal control, coordinate internal control audits, supervise the rectification of internal control deficiencies and other related matters; and review the financial and accounting policies and practices of the Company and its Group;
5. to review the internal control audit reports issued by the external audit firm, and communicate with the external audit firm about the issues identified and the improvement methods. It shall review, proactively or as delegated by the Board, the management letter issued by the external audit firm to the management, any material concerns raised by the external audit firm to the management in respect of the accounting records, financial accounts, risk management or monitoring system and the management's response, ensuring that the Board responds in a timely manner to the matters raised in the management letter issued by the external audit firm to the management;
6. to ensure that the work of the internal and external audit firms is coordinated; to ensure that the internal audit function is adequately resourced and has an appropriate position within the Company; and to review and monitor the effectiveness of the internal audit function;
7. to review the following arrangements set by the Company: employees of the Company can, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for the Company to make a fair and independent investigation on these matters and take appropriate actions therefor; and
8. to discuss any issues and reserved matters arising from the review of the interim report and the audit of the annual results, as well as any matters that the external auditors wish to discuss (if necessary, the management shall abstain from attending the meeting).

- (V) being responsible for communication between the management, the internal audit department and relevant departments and the external audit firm
1. to coordinate the communication between the management with the external audit firm in respect of major audit issues;
  2. to coordinate the communications between the internal audit department and the external audit firm as well as cooperation for the external audit work;
  3. to act as the key representative body for overseeing the Company's relationship with the external audit firm.
- (VI) reporting to the Board on the above matters and other matters as set out in Code Provision D.3.3 of Appendix C1 to the Listing Rules of the Hong Kong Stock Exchange (and such provision as amended from time to time), and reporting to the Board on the Committee's decisions or recommendations, unless such reporting is prohibited by legal or regulatory restrictions.
- (VII) being responsible for supervising and improving the principles, structure and systems of corporate governance, including:
1. to formulate and review corporate governance policies and practices, and make recommendations to the Board;
  2. to review and monitor the training and continuous professional development of Directors, supervisors and senior management;
  3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
  4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
  5. to review the compliance with Corporate Governance Code as set out in the Appendix C1 to the Listing Rules of the Hong Kong Stock Exchange and the disclosure in the Corporate Governance Report of the Company.
- (VIII) other matters as required by laws and regulations, the securities regulatory rules of the place where the Company's shares are listed or as authorized by the Board of the Company.

**Article 9** The following matters shall be submitted to the Board for consideration after the consent of more than one-half of all members of the Audit Committee:

- (I) disclosure of financial information in financial reports and periodic reports, as well as internal control evaluation reports;
- (II) appointment or dismissal of the accounting firm undertaking audit services of the Company;
- (III) appointment or dismissal of Chief Financial Officer of the Company;

- (IV) changes in accounting policies or accounting estimates or corrections of major accounting errors for reasons other than changes in accounting standards;
- (V) other matters as stipulated by laws, administrative regulations, provisions of the China Securities Regulatory Commission and the Articles of Association.

**Article 10** The Audit Committee shall be accountable to the Board. The Committee shall submit its proposals to the Board for consideration and decision. The Audit Committee shall coordinate with the audit activities undertaken by supervisors of the supervisory committee.

The Audit Committee should disclose its terms of reference publicly on the website of The Stock Exchange of Hong Kong Limited and the website of the Company, to explain its role and authority delegated by the Board.

#### **Chapter 4 Decision-making Processes**

**Article 11** The audit working unit shall duly carry out preparation works before the decision-making of the Audit Committee and provide written information of the Company in relation to the following:

- (I) relevant financial reports of the Company;
- (II) work reports of the internal and external audit firm;
- (III) external auditing contract and relevant work reports;
- (IV) information which the Company disclosed to the public;
- (V) audit reports on the material related transactions of the Company;
- (VI) internal control evaluation reports of the Company;
- (VII) other relevant matters.

**Article 12** The Audit Committee shall convene meetings to discuss reports submitted by the audit working unit, and shall submit its relevant written meeting materials to the Board for discussion:

- (I) work appraisal on the external audit firm, and the engagement and change of the external audit firm;
- (II) report on whether the internal audit system of the Company has been effectively implemented and whether the financial reports of the Company are complete and accurate;
- (III) report on whether the financial information disclosed publicly by the Company is objective and accurate, and whether the material related transactions are in compliance with the relevant laws and regulations;
- (IV) work appraisal of the internal financial department and audit department, including their persons-in-charge;

(V) internal control evaluation reports of the Company;

(VI) other relevant matters.

## **Chapter 5 Rules of Procedure**

**Article 13** Meetings of the Audit Committee shall include regular meetings and extraordinary meetings. Regular meetings shall be held at least once a quarter, and extraordinary meetings may be convened upon the proposal of two members or the chairman. Notices of meetings shall be given to all Committee members at least 2 days, in advance of the date of such meetings. The meeting shall be presided over by the chairman, who may delegate the chairmanship to one of the other members (an Independent Director) in the event that he/she is unable to attend the meeting.

**Article 14** The meetings of the Audit Committee shall be convened only with the presence of more than two-thirds of the members. Each member shall be entitled to one vote. Resolutions of a meeting must be adopted by the affirmative votes of more than half of all members. If a member is unable to attend the meeting for any reason, he/she may authorize another member in writing to attend on his/her behalf, which will be deemed as if he/she has attended the meeting.

**Article 15** The Audit Committee shall vote by a show of hands or by a poll. Meetings may also be convened in the form of vote by communications, and subsequently confirmed by signatures.

**Article 16** Any member of the Audit Committee having a conflict of interest in the matters to be discussed by the Audit Committee shall abstain from attending the meeting. When a valid audit opinion cannot be formed by deliberation due to members of the Audit Committee in absence, the relevant matter shall be considered by the Board directly.

**Article 17** Members of the audit working unit may attend meetings of the Audit Committee. Directors, supervisors and other senior management of the Company may be invited to attend such meetings if necessary.

**Article 18** If necessary, the Audit Committee may engage an intermediary institution to provide professional advice on its decision at the Company's expense.

**Article 19** The procedures for convening a meeting, the way of voting and the resolutions passed at a meeting of the Audit Committee shall comply with the provisions of the relevant laws, regulations, the securities regulatory rules of the place where the Company's shares are listed, the Articles of Association and the Rules.

**Article 20** Minutes of the Audit Committee meetings must be recorded and shall be signed by the attending members. The minutes should detail the matters considered and the resolutions made, including any concerns or dissent expressed by Directors. The complete minutes of the Audit Committee shall be kept by the duly appointed Committee secretary (usually the company secretary) and the secretary to the Board. The draft minutes (for members to express opinions) and the final version (for record) should be sent to all Committee members within a reasonable time after the meeting. Directors may review the minutes with reasonable notice within a reasonable timeframe.



**Article 21** The proposals and voting results passed at the Audit Committee meetings shall be submitted to the Board of the Company in writing.

**Article 22** All members attending the meeting are bound by confidentiality regarding the matters discussed and must not disclose any related information without authorization; otherwise, the relevant personnel shall bear all legal liabilities arising therefrom.

## **Chapter 6 Supplementary Provisions**

**Article 23** The Rules, after being resolved and approved by the Board, shall become effective and come into effect on the listing date of the H shares issued by the Company on The Stock Exchange of Hong Kong Limited. Upon the implementation of the Rules, the original Implementing Rules for the Audit Committee of the Company shall automatically become invalid.

**Article 24** Matters not covered in the Rules shall be implemented in accordance with the provisions of the relevant laws, regulations of the PRC, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association. In case of any conflict between the Rules and any future laws and regulations of the PRC, the securities regulatory rules of the place where the Company's shares are listed or the Articles of Association as amended by legal procedures, the relevant laws and regulations of the PRC, the securities regulatory rules of the place where the Company's shares are listed and the Articles of Association shall prevail, and the Rules shall be amended immediately and submitted to the Board for approval.

**Article 25** The right of interpretation of the Rules belongs to the Board. The "Independent Director" referred to in the Rules has the same meaning ascribed to it under the Listing Rules of the Hong Kong Stock Exchange.

Board of Jiangsu Hengrui Pharmaceuticals Co., Ltd.