

*The English version is for reference only. Should there be any inconsistency or discrepancy between the English and the Chinese versions, the latter shall prevail.*

## **THE CODE OF PRACTICE OF THE AUDIT COMMITTEE OF THE GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS COMPANY LIMITED OF THE BOARD OF DIRECTS**

(Amended and approved by the Company at the 20th meeting of the seventh session of the Board of Directors on 14 March 2019)

### **CHAPTER 1 GENERAL RULES**

**Article 1** In order to ensure the Company's development in an ongoing, steady and healthy manner, further improve the corporate governance structure of the Company, strengthen the Board of Directors' decision making in a scientific manner, raise the standard of efficiency and decision making for significant investments as well as to improve the Company's financial and accounting standards, Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (the "Company") has set up an Audit Committee (the "Committee") under the Board pursuant to the Company Law of the People's Republic of China, the Corporate Governance Code for Listed Companies, the Articles of Association of the Company, the listing rules applicable to each of the stock exchanges where the securities of the Company are listed (hereinafter referred to as the "Listing Rules") and other relevant regulations, which shall provide assistance to the Board by conducting independent review on the efficiency of financial reporting procedure, risk management and internal control system of the Company and formulated these Terms of Reference.

**Article 2** The Audit Committee is established by the Board and it is accountable to the Board.

**Article 3** The Company has formulated the code of the practice of the Audit Committee (the "Code of Practice") in order to make clear to the power, duties and responsibilities of the Audit Committee. To enhance the efficiency, reporting standard, transparency and objectivity of the Board, the Audit Committee shall exercise the powers authorized by the Board, discharge its duties Audit report and advise the Board in accordance with this Code of Practice.

### **CHAPTER 2 COMPOSITION**

**Article 4** The Audit Committee shall comprise at least three non-executive directors, of which independent non-executive directors of the committee shall take up over half of the total number of committee members. The members of the Audit Committee shall be appointed by the Board.

An independent non-executive director member shall be appointed as the chairman of the Audit Committee by the Board. Chairman of the Audit Committee should be a professional accountant.

**Article 5** The term of office of the Audit Committee members is 3 years which shall commence and end on the same time as the terms of reference of the existing directors. The committee members are eligible for re-nomination upon the expiration of their term of office. If any committee member is no longer as a director during the term of office, he/she shall lose the qualification of being a committee member and the Board shall appoint members to complement the numbers of members as required by Article 4 above.

**Article 6** The Audit Committee members shall be entitled to appropriate remuneration to reflect their time committed and responsibilities undertaken while serving the Audit Committee.

**Article 7** A secretary to the Audit Committee, who shall be the person responsible for the internal audit department of the Company, shall be appointed in order to assist the communication between the Audit Committee and the Board as well as the related departments of the internal and external audit of the Company and the obtaining of information for the Audit Committee necessary for the fulfillment of their duty.

### **CHAPTER 3 RESPONSIBILITY AND AUTHORITY**

**Article 8** The principal duties of the Audit Committee are:

- (1) responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, to examine the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (2) 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; discuss and communicate with external auditing institutions on the audit scope, audit plans, audit methods and major audit findings.
- (3) to review the annual internal audit plan of the Company and urge the implementation of the internal audit plan; to review the internal audit reports, assess the internal audit results and urge the rectification of significant issues and guide the effective operation of the internal audit department; 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;

- (4) to review and monitor integrity of the Company's financial statements and annual report and accounts (including their disclosures), half- year report and, if prepared for publication, quarterly reports, 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 judgmental 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 Listing Rules and other legal requirements in relation to financial reporting;
- (5) Regarding (4) 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 external auditors; and
  - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report 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 external auditors;
- (6) to review the Group's financial and accounting policies and practices;
- (7) to review the Company's financial controls, internal control, internal audit and implement of risk management systems;

- (8) to discuss the internal control system and the risk management systems to ensure that the management has performed its duty to have an effective on risk management, internal control system and audit system, to assess the appropriateness of the design of the internal control system of the Company; to review self-evaluation of the internal control report; to review the internal control audit report issued by the external auditing organization, to communicate with the external auditor to identify the problems and improve the method and to assess the results of internal control evaluation and audit and to supervise the rectification of internal control deficiencies. This discussion should include adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.
- (9) to consider major investigation findings on risk management, internal control and audit matters as delegated by the Board or on its own initiative and management response to these findings;
- (10) to be responsible for coordinating the communication between management, internal and external auditors, 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;
- (11) to review the statement from the external auditor regarding the audit and the response from the Company's managerial management, to review the external auditor's management letter (or document(s) of the same or similar nature), any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (12) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter (or document(s) of the same or similar nature) issued to the management;
- (13) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (14) 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;

- (15) to report to the Board on the matters set out in paragraph C3.3 with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
- (16) to confirm the list of related parties of the Company and report to the Board and the supervisory committee on a timely basis; examine the connected transactions, if the connected transactions that need to be disclosed, shall be examined those connected transactions, and prepare written opinions for submission to the Board for consideration and to the supervisory committee for reference;
- (17) to discuss internal investigation found on the problem and management personnel's response; and
- (18) to consider other matters as prescribed by applicable laws, regulations, the Listing Rules and as authorized by the Board.

**Article 9** The Audit Committee is accountable to the Board, and the proposals proposed by the Audit Committee shall be reviewed and decided by the Board.

**Article 10** The Audit Committee shall have the power to request a subsidiary or department undergoing audit to provide relevant plans, budget accounts, final accounts, accounting statements, accounting documents, accounting softwares, contracts and any other relevant documents. The relevant subsidiary or department shall deliver such documents within the prescribed time limit, and must not refuse to provide or withhold or transfer such information or provide false information.

**Article 11** The Audit Committee shall have the power to inquire a subsidiary or department or to request supporting documents. The relevant subsidiary and personal should fully co-operate and provide relevant and accurate information.

**Article 12** The Audit Committee within their functions and powers and authorized by the Board, under any investigation, has the power to engage intermediaries or other independent professionals to provide professional advice and the relevant expenses shall be paid by the Company.

**Article 13** The Audit Committee, in discharging its duties, may expand the scope of review of corporate affairs after obtaining the authorization approval from the Board.

**Article 14**

The secretary to the Audit Committee shall be responsible for the preliminary preparation works of decision-making by the Audit Committees, and to provide the related written information about audit matters in writing:

- (1) the related financial statements of the Company and its subsidiaries;
- (2) the working report of the internal and external auditing organization;
- (3) external auditing contracts and the working report;
- (4) the status of the Company which is disclosed to public;
- (5) audit reports on connected transactions of the Company;
- (6) other relevant matters.

**Article 15**

After the completion of the annual audit, the Audit Committee shall review and discuss the auditing report with the independent auditors, people in charge of the internal auditing department, people in charge of the financial department and the management the following before submitting the same to the Board:

- (1) the performance appraisals of external auditors, as well as the appointment and change of the external auditors;
- (2) the degree of appropriateness of the accounting policies adopted by the Company, in relation to the compliance with the prevailing best application rules and laws in Hong Kong and China as well as the amendment in accounting policies and practices; the degree of compliance with the accounting standards, the amendment necessary to be made after the audit, and the related matters such as the assumption of going operation basis;
- (3) whether the Company has effectively implemented the internal auditing policies; whether the financial reports are complete and true;
- (4) whether the financial reports disclosed to the public by the Company are objective and true;
- (5) whether the material transactions of the Company comply with related laws, constitutions and administrative regulations;
- (6) the performance appraisals of the financial departments and the internal auditing departments in the Company, including the people in charge for thereto;
- (7) other relevant matters.

- Article 16** To consider/review and discuss the annual and interim financial reports with the independent auditors, people responsible for the internal auditing departments and financial departments and the management of the Company before the same are published.
- Article 17** To review and discuss other non-annually and quarterly published information and access whether the information contained in such document are true, objective and fair to reflect the truth, or whether it is consistent with those contained in the annual or quarterly financial statements of the Company.
- Article 18** Review, consider and co-ordinate the scope of work and audit plans of the independent auditors and the internal auditing departments of the Company to ensure the complete coverage of the working scope, avoid duplication of work and promote effective use of resources.
- Article 19** To complete other audit tasks delegated by the Board.
- Article 20** To report the works performed by the Audit Committee to the Board (at least once a year), and advise the Audit Committee's view to the Board.

#### **CHAPTER 4 THE MEETING RULES**

- Article 21** The Audit Committee shall hold at least four regular meetings each year. The Audit Committee's meeting shall be convened and chaired by the chairman of the Committee, notice of the meeting shall be dispatched to all the Audit Committee members not less than 5 days before the meeting. An independent auditor shall also suggest the Audit Committee to convene a meeting if he/she considers as necessary. Members of the Committee shall attend the meeting in person and clearly express their opinions on the matters on agenda. If, for any reason, a member of the Committee is unable to attend a meeting in person, he may submit a power of attorney signed by the member to entrust another member to attend the meeting and express opinions on his behalf. The power of attorney shall specify the scope of authorization and its term of validity. Each member may accept such entrustment from no more than one member. If, for any reason, a member (independent non-executive director) of the Committee is unable to attend a meeting in person, he shall entrust another member (independent non-executive director) to attend the meeting on his behalf.
- Article 22** The chairman of the Audit Committee shall prepare the agenda and assign the secretary to the Audit Committee to prepare for the requisite materials of the meeting. Relevant meeting materials shall be sent in full to the Audit Committee members 3 days before the date of the meeting.

**Article 23** The quorum of the meeting shall require the presence of two-third of the Audit Committee members. Each Audit Committee member has a voting right. Resolutions at any meetings shall be passed by a simple majority of votes of all the members. The relevant matter shall be reviewed directly by the Board when the Audit Committee is unable to give effective audit opinions due to the abstaining of its member(s).

**Article 24** The Audit Committee may invite the directors, secretary of the Board, financial controller, the people responsible for the internal auditing department, people responsible for the financial department, independent auditors, legal advisors or any other to attend the meeting if necessary.

**Article 25** The convening procedures of the Audit Committee meeting, voting methods and resolutions passed in the meeting shall comply with related laws, rules, the Articles of the Company and this Code of Practice.

The methods of voting in the committee meeting are by a show of hands or by poll.

**Article 26** Full minutes of the committee meeting shall be recorded. The secretary to the Audit Committee is responsible for minutes drafting. The preliminary draft and final draft of the minutes shall be sent to all the Audit Committee members within a reasonable period of time after the meeting. The preliminary draft shall be provided for the Audit Committee members to express their opinions and the final draft shall be used for their records.

The Audit Committee members present at the meeting shall sign the minutes of the meeting. The minutes of the meeting are kept in duplicate by the Secretariat to the Board of the Company.

**Article 27** All the attended committee members and parties assume a duty of confidentiality to the meeting and shall not disclose the information without authorization.

**Article 28** Any member of the Audit Committee who has an interest in any agenda item shall withdraw from the meeting.

## **CHAPTER 5 SUPPLEMENTARY PROVISIONS**

**Article 29** The relevant documents, proposals, cases, resolutions and minutes (records) of the Audit Committee shall be kept by the Secretariat of the Company. The resolutions and minutes (records) should be signed by the committee members who attended the meetings.



**Article 30** The Code of Practice shall come into effect and be implemented from the date when it was passed on the Board meeting.

**Article 31** Any matters not covered by this Code of Practice shall be implemented in accordance with the provisions of the relevant laws and regulations of the PRC, the Listing Rules and the Articles of Association of the Company. Should this Code of Practice conflict with the laws and regulations of the State coming into effect after the Rules Effective Date or the Listing Rules or the Articles of Association amended after the Rules Effective Date through lawful procedures and implemented subsequently, the State laws and regulations, the Listing Rules and the Articles of Association of the Company as amended after the Rules Effective Date shall prevail, and this Code of Practice shall be revised immediately and the revision shall be reported to the Board for consideration and approval.

**Article 32** The Board reserves the right to interpret this Code of Practice.

The Board of  
**Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited**