
PHARMARON BEIJING CO., LTD.

TERMS OF REFERENCE OF

THE AUDIT COMMITTEE OF THE BOARD

Beijing, the PRC
August 2019

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Article 1 These terms of reference (the “**Terms of Reference**”) are formulated for the audit committee (the “**Audit Committee**”) of the board of directors (the “**Board**”) established by the Company in accordance with the Company Law of the People’s Republic of China (the “**Company Law**”), the Standards on Corporate Governance of Listed Companies, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Articles of Association of Pharmaron Beijing Co., Ltd. (the “**Articles of Association**”) and other relevant regulations, in order to strengthen the decision-making function of the Board, achieve audit in advance and professional audit, ensure effective supervision over the senior management by the Board and optimise the corporate governance structure of the Company.

Article 2 The Audit Committee of the Board is a specialised working body under the Board of the Company which is principally responsible for the communication, supervision and verification in relation to the internal and external audits of the Company, and shall report and is held accountable to the Board.

Article 3 The securities affairs department shall be responsible for daily work contact and organization of meetings of the Audit Committee. The internal audit department of the Company is a daily administrative office of the Audit Committee and shall be responsible for all preparatory works to facilitate the decision-making of the Audit Committee.

Article 4 The Audit Committee shall be composed of three directors, all of whom shall be non-executive directors. The majority of the Audit Committee members must be independent non-executive directors and the chairman of the Audit Committee must also be an independent non-executive director. At least one member of the Audit Committee shall be an independent non-executive director with the proper professional qualification as required by Rule 3.10(2) of the Listing Rules, or appropriate accounting or related financial management expertise. All members of the Audit Committee shall possess such expertise and commercial experience so that they are capable of performing their work duties in the Audit Committee.

A former partner of the Company’s existing external audit firm may not act as a member of the Audit Committee within two years commencing from the later of the following dates: (1) when he/she ceases to be a partner of the audit firm; or (2) when he/she ceases to have any financial interests in the audit firm.

Article 5 The members of the Audit Committee shall be nominated by the chairman of the Board or more than half of the independent non-executive directors or one-third of all directors and be elected by the Board.

Article 6 The members of the Audit Committee shall have the tenure same as that of the Board. The members are eligible for re-election upon expiry of the tenure. No members shall, before the expiration of his/her term of office, be removed from office without reason except for the circumstances that require dismissal as stipulated in the Company Law, the Listing Rules, the Articles of Association or these Terms of Reference.

Article 7 If any member ceases to be a director of the Company during his/her term of office, he/she shall ipso facto and immediately cease to hold the position of the member of the Audit Committee.

The member of the Audit Committee may resign before the completion of the term of his office, and shall submit a written resignation report to the Board, the resignation report cannot take effect unless approved by the Board. Additionally, the original members shall perform related duties in accordance with these Terms of Reference before the member elected through by-election takes office.

Article 8 When the members of the Audit Committee are reduced due to their resignation, dismissal or other reasons, the Board of the Company shall elect new members as soon as possible in accordance with the provisions of these Terms of Reference.

Article 9 The Audit Committee has one chairman who shall be an independent non-executive director (accounting professional) among the members and shall be elected by the Board.

The chairman shall preside over the work of the committee, convene and chair the committee meetings. The chairman, in case of failure or inability to perform his duties, shall designate a member of the committee, concurrently being an independent non-executive director, to act on his behalf. If the chairman neither performs his duties nor designates other members to act on his behalf, any member shall report relevant information to the Board of the Company, and the chairman of the Company shall designate a member of the committee, concurrently being an independent non-executive director, to act on his behalf.

Article 10 The main duties and responsibilities of the Audit Committee include:

- (1) to propose the appointment and replacement of, and supervise and evaluate external auditor;
- (2) to provide guidance on internal audit, and supervise the establishment, improvement and implementation of the Company's internal audit system;
- (3) to be responsible for coordinating communication between the management, internal auditors and external auditor;
- (4) to review financial information of the Company and its disclosure and to comment thereon;
- (5) to assess the effectiveness of internal control, supervise the financial reporting system, risk management and control system, review the internal control system of the Company, and audit and supervise major connected transactions;
- (6) to deal with other matters as authorised by the Board and required by the relevant laws and regulations.

Article 11 The duties and responsibilities of the Audit Committee to supervise and evaluate the external auditor shall include, inter alia, the following:

- (1) to act as the key representative body for overseeing the Company's relations with the external auditor;

- (2) to propose to the Board the appointment, re-appointment or change of the external auditor, approve the remuneration and terms of engagement of the external auditor, and dealing with any matters in relation to the resignation or dismissal of the external auditor;
- (3) to review and monitor the independence and objectivity of the external auditor and the effectiveness of the audit process in accordance with the applicable standards; to discuss with the auditor the nature and scope of the audit and the relevant reporting obligations before the audit commences;
- (4) to develop and implement policies on the provision of non-audit services by the external auditor. For the purpose of this clause, an external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a third party having reasonable knowledge of all relevant information would reasonably conclude as part of the local or international business of the audit firm. The Audit Committee shall report and propose to the Board any matters where action or improvement is needed.

Article 12 The Audit Committee shall guide and supervise the work of the internal audit department and perform the following main duties and responsibilities in guiding and supervising the work of the internal audit department:

- (1) to guide and supervise the establishment and implementation of internal audit system;
- (2) to hold at least one meeting every quarter to consider the work plans and reports submitted by the internal audit department;
- (3) to report to the Board at least once every quarter on matters including but not limited to progress and quality of internal audit and major problems discovered;
- (4) to coordinate the relationship between the internal audit department and external audit institutions such as accounting firms and national audit authorities.

Article 13 The duties and responsibilities of the Audit Committee to review and comment on the Company's financial reports and their disclosures shall include, inter alia, the following:

- (1) to monitor the integrity of the financial statements and annual reports and accounts, interim reports and quarterly reports (if applicable) of the Company, and review significant opinions contained therein in respect of relevant financial reporting. Before submitting relevant statements and reports to the Board, the committee shall focus particularly on the review of:
 - (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 laws and regulations and the listing rules of the stock exchange on which the Company's stocks are listed in relation to financial reporting.

- (2) in relation to (1) above, the members of the Audit Committee shall liaise with the Board and senior management. The Audit Committee must meet, at least twice a year, with the external auditor; and the committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and it shall give due consideration to any matters that have been raised by the staff responsible for accounting and financial reporting function, compliance officer or external auditor of the Company.

Article 14 The duties and responsibilities of the Audit Committee to assess the effectiveness of internal control and oversee the financial reporting system, risk management and control system in accordance with the self-evaluation report on internal control and related information issued by the internal audit department shall include, inter alia, the following:

- (1) to assess the appropriateness, soundness and effectiveness of the design of the internal control system;
- (2) to review the self-evaluation report on internal control;
- (3) to assess the results of internal control evaluation and audit, and supervise the rectification of internal control deficiencies;
- (4) to review the financial control of the Company, and unless specifically dealt with by a risk committee of the Board or by the Board itself, review the risk management and internal control systems of the Company;
- (5) to discuss the risk management and internal control system with management to ensure that the management has performed its duty to establish an effective system. The discussion shall include the adequacy of resources, qualification, experience and training of staff and budget of accounting and financial reporting function of the Company;
- (6) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (7) to ensure the coordination between internal audit and external auditor, and ensure that the internal audit is provided with adequate resources for its operation and has appropriate standing; and review and monitor its effectiveness;
- (8) to review the financial and accounting policies and practices of the Company;
- (9) to inspect the external auditor's management letter issued to the management by the external auditor, any material queries raised by the external auditor to the management about accounting records, financial accounts or systems of control and the management's responses;
- (10) to ensure the Board will provide a timely response to any issues raised in the external auditor's management letter issued to the management by the external auditor;
- (11) to report to the Board on the matters set out in Appendix 14 "Corporate Governance Code" to the Listing Rules; and
- (12) to consider other matters required by the Board.

Article 15 The Board of the Company shall fully respect the recommendations from the Audit Committee on engaging or replacing the candidates for the external auditor, and shall not shelve or take no votes on the recommendations from the Audit Committee without sufficient grounds or reliable evidences.

Article 16 The relevant departments of the Company shall provide support for the Audit Committee to perform its duties, with the charges reimbursed by the Company.

Article 17 The employees of the Company may raise, in confidence, concerns about possible irregularities in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and arrange necessary follow-up action. The Audit Committee may establish a whistle blowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible irregularities in any matter related to the Company.

Article 18 The Audit Committee may appoint intermediary institutions to provide professional opinions at the cost of the Company as it deems necessary.

Article 19 The internal audit department is responsible for organizing and coordinating relevant departments or intermediaries to prepare the documents for the Audit Committee meetings and shall ensure that they are true, accurate and complete. The meeting documents shall include but are not limited to:

- (1) the relevant financial reports of the Company;
- (2) the work reports of the internal audit department and external auditor;
- (3) external audit contracts and the relevant work reports;
- (4) public disclosure of information made by the Company;
- (5) the audit reports on major connected transactions of the Company;
- (6) other relevant matters.

Article 20 The internal audit department shall perform the internal approval procedures for the meeting documents in accordance with the Company's internal management system and submit the documents to the securities affairs department.

Article 21 The securities affairs department shall submit the meeting documents to the chairman of the Audit Committee for review, and convene the meetings of the Audit Committee in a timely manner upon approval.

Article 22 The Audit Committee shall approve reports and resolutions or make recommendations by convening a meeting and submit them to the Board of the Company in writing. For those requiring the consideration and approval by the Board meetings or general meetings, the Audit Committee shall submit a proposal to the Board, and perform the approval procedures in accordance with the relevant laws, regulations and the Articles of Association.

Article 23 If more than half of the Board members have objections to the reports and resolutions passed by the meetings of the Audit Committee, they may submit their written feedback to the Audit Committee in a timely manner.

Article 24 Meetings of the Audit Committee are divided into regular meetings and extraordinary meetings and shall be convened and chaired by the convenor of the Audit Committee.

Article 25 Meetings of the Audit Committee may be held on site or by facsimile, videos, videophone, telephone and other communication means as appropriate.

Article 26 Notices shall be given 7 days before a regular meeting to all members and 3 days before an extraordinary meeting by a securities affairs department.

Article 27 Meetings of the Audit Committee shall be held by at least two-thirds of the members present at the meeting.

Article 28 Members of the Audit Committee may attend the meetings in person or by appointing other members as their proxies and exercise the voting right on their behalves. Each member of the Audit Committee shall appoint only one other member as his proxy to exercise the voting right on his behalf. Where any member appoints two or more members to exercise the voting right on his behalf, such appointment shall be deemed invalid.

Article 29 The Audit Committee may, if considered necessary, summon other persons in connection with the proposals to attend the meeting to provide detailed information or express their opinions. Those who are not members of the Audit Committee, however, do not have voting rights on the proposals.

Article 30 Items proposed at the meetings of the Audit Committee are subject to collective consideration and voting on a case by case basis, i.e. all the proposals are considered by all members present and then are put to the vote one by one according to the order of consideration.

Article 31 When the Audit Committee votes on the related matters, the interested members shall abstain from voting thereon.

Article 32 Each member shall be entitled to one vote when voting at the meetings of the Audit Committee. Resolutions made by the Audit Committee shall not be valid unless passed by more than half of all members voting thereon. The related matters which cannot be reviewed effectively due to abstention of members of the Audit Committee shall be reviewed by the Board directly.

Article 33 Voting at the meetings of the Audit Committee may be conducted by open ballot, a show of hands, communications or other means.

Article 34 Proposals and voting results adopted at the meetings of the Audit Committee shall be reported to the Board of the Company in writing.

Article 35 The Audit Committee shall maintain written meeting minutes on which members present and other persons shall sign their names.

Article 36 Archives of the Audit Committee meetings, including notices of meetings, meeting materials, meeting attendance books, power of attorney for proxy members, votes, meeting minutes signed by the attending members and resolutions adopted at the meetings etc., shall be kept by the secretary of the meeting duly appointed. Drafts and final versions of minutes of meetings shall be sent to all members of the Audit Committee for their comments and records respectively, within a reasonable time after the meetings. Archives of the Audit Committee meetings shall be kept for 10 years.

Article 37 Before announcement of the resolutions by the Company in accordance with the legal procedure, the attending members, other attendants, and the recording and service personnel shall fulfill confidentiality obligation to the contents of resolutions.

Article 38 Any matters not covered herein shall be subject to the relevant national laws, administrative regulations, departmental rules, the Listing Rules and the Articles of Association.

Where these Terms of Reference conflict with the national laws and regulations, the Listing Rules or the Articles of Association, the Board of the Company shall revise these Terms of Reference immediately for approval by the Board.

Article 39 These Terms of Reference shall be subject to the amendment and interpretation of the Board of the Company.

Article 40 These Terms of Reference shall come into effect after consideration and approval by the Board and from the date on which the overseas-listed foreign shares (H Shares) of the Company are publicly issued and listed on the main board of The Stock Exchange of Hong Kong Limited.

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