

Shandong Xinhua Pharmaceutical Co., Ltd.

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

(Stock Code: 00719)

(the “Company”)

Terms of Reference of the Audit Committee under the Board of Directors

(These terms of reference have been prepared in both Chinese and English. In the event of any discrepancy between the two versions, the Chinese version shall prevail.)

Approved by the Board of Directors (the “**Board**”) of the Company on 1 July 1999 and amended and approved at the 13th meeting of the 10th session of the Board on 27 October 2023

General Provisions

- Article 1.** The Company shall establish the Audit Committee (the “**Audit Committee**”) under the Board.
- Article 2.** The terms of reference of the Audit Committee shall be in accordance with the Company Law of the People's Republic of China (the “**PRC**”), the Code of Governance for Listed Companies (PRC), the Guiding Opinions on the Establishment of Independent Director System in Listed Companies (PRC), the Articles of Association, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) and other relevant provisions.
- Article 3.** In these terms of reference, “**Directors**” means directors of the Board of the Company, and “**Senior Management**” means the General Manager and Deputy General Manager(s), Secretary of the Board and other senior management appointed by the Board upon recommendation of the General Manager.

Members

- Article 4.** The Audit Committee shall be appointed by the Board from amongst the non-executive directors of the Board, a majority of whom, shall be independent. The Audit Committee shall consist of at least three independent non-executive Directors (“**INED(s)**”), at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Listing Rules.
- Article 5.** The convener of the Audit Committee shall be an INED, responsible for providing leadership of the work of the Audit Committee and shall be appointed by the Company's Board.
- Article 6.** A former partner of the Company's existing auditing firm from time to time should not act as a member of the Audit Committee for a period of two years commencing on the date of his ceasing (a)

to be a partner of the firm or (b) to have any financial interest in the firm, whichever is the later.

Article 7. The convenor of the Audit Committee shall:

- (1) convene and chair Audit Committee meetings;
- (2) review and sign the Audit Committee report;
- (3) review the implementation status of resolutions of the Audit Committee;
- (4) on behalf of the Audit Committee report to the Board its work; and
- (5) carry out other duties undertaken by a convenor of the Audit Committee.

Article 8. The term of office of a member of the Audit Committee shall be the same as that of the term of office of a Director of the Board. A member of the Audit Committee whose term of office ends may hold a consecutive term upon re-election. During the term, if a member is no longer a Director of the Company, such member will automatically be disqualified from office as a member of the Audit Committee and the Board shall fill the vacancy according to Articles 4, 5 and 6 of these terms of reference.

Article 9. Members of the Audit Committee shall:

- (1) be familiar with the operation and management of the Company and the relevant laws and regulations applicable to the Company;
- (2) act in good faith, be honest, self-disciplined and devoted to his duties, and work proactively to safeguard the interests and rights of the Company and its shareholders; and
- (3) have appropriate and relevant knowledge, expertise and experience in the business, financial and/or accounting sector.

Article 10. The administration office of the Audit Committee shall be the administration office of the Board. The administration office of the Board shall be responsible for the day-to-day affairs of Audit Committee.

Article 11. The Board may provide appropriate remuneration to members of the Audit Committee based on the member's time contribution and responsibilities.

Meetings

Article 12. The Audit Committee shall hold at least two meetings every year. The Company's external auditors may request that a meeting be held if they consider it necessary.

Article 13. The convenor of the Audit Committee shall act as chairman of a meeting. In the absence of the convenor of the Audit Committee, the remaining members of the Audit Committee present shall elect one of themselves who is an INED to chair the meeting.

Article 14. The meeting time, venue and proposed major items on the agenda shall be sent by facsimile, courier or registered post or hand delivery to members of the Audit Committee seven days in advance of such meeting.

- Article 15.** A quorum for the Audit Committee meeting shall be at least two members, one of whom must be an INED.
- Article 16.** Meetings could be held in person, by telephone or by video conference. Members may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.
- Article 17.** Resolutions of the Audit Committee shall be passed by more than half of the votes cast.
- Article 18.** A resolution in writing signed by all the members shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.
- Article 19.** Secretary of the Board shall act as secretary of the Audit Committee, and in the absence of the company secretary, a member of the Audit Committee or his/her nominee shall act as the secretary.
- Article 20.** Minutes of the meetings of the Audit Committee shall be kept by the secretary of the Company. Minutes shall record matters considered and decisions reached by the members of the Audit Committee in detail, including any doubt or disagreement raised by members of the Audit Committee. Draft and final versions of minutes of the Audit Committee meetings should be sent to all members of the Audit Committee for their comment and records respectively within a reasonable time after the meeting.
- Article 21.** Secretary of the Audit Committee shall circulate the minutes of meetings and reports of the Audit Committee to all members of the Board.

Attendance at meetings

- Article 22.** Financial controller, chairman of supervisory committee, head of the audit department of the Company and representatives of domestic and international external auditors shall normally attend meetings of the Audit Committee, and other members of the Board shall also have the right to be present. However, the Audit Committee shall meet at least once a year with the domestic and international external auditors of the Company without the executive Director(s) of the Board present.

Authority

- Article 23.** The Audit Committee is authorised by the Board to conduct any investigation of activities within its scope of powers. In the discharge of its duties as set out below, the Audit Committee is authorised to seek any information it requires from any employee of the Audit Company and its subsidiaries (if applicable) and all such employees are directed to co-operate with any request made by the Audit Committee.
- Article 24.** The Audit Committee is authorised by the Board, at the Company's expense, to appoint legal or other independent professional advisers or consultants with relevant experience and expertise to assist the Audit Committee in the discharge of its duties set out in these terms, and to secure the attendance of such professional advisers or consultants at its meetings if it considers it necessary.

Article 25. The Audit Committee is authorised to require management of the Company to provide it with such resources as may be necessary for it to discharge its duties as set out in these terms.

Article 26. The Audit Committee should be provided with sufficient resources to perform its duties.

Article 27. The Audit Committee is authorised to review any arrangement which may raise concerns about possible improprieties in financial reporting, risk management and internal control or other matters.

Responsibility

Article 28. The Audit Committee is to serve as a focal point for communication between other Directors of the Company, the external auditors and the internal auditor (where an internal audit function exists in the Company), as regards their duties relating to financial and other reporting, risk management and internal controls, external and internal audits and such other matters as the Board determines from time to time.

Article 29. The Audit Committee is to assist the Board in providing an independent review and supervision of financial reporting and risk management, by satisfying themselves as to the effectiveness of the internal controls of the Company, and as to the adequacy of the external and internal audits.

Duties, Powers and Functions

Article 30. The duties of the Audit Committee include the following:

I. Financial reporting

- (a) The Audit Committee shall monitor the integrity, accuracy and transparency of the Company's financial statements and annual reports and accounts and half-year report, review significant financial reporting judgments contained in them, and review whether the representations made in the directors' report are appropriate.
- (b) In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:-
 - (i) the consistency of and any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit. The Audit Committee should also review and investigate the issue requiring such adjustments and whether further adjustments are required;
 - (iv) the going concern assumptions and any qualifications;
 - (v) the disclosure in respect of extraordinary items during the year to ensure that such disclosure in the accounts are fair and not misleading and that such extraordinary items are given appropriate attention in the financial statements. Any material item which is infrequent may be deemed extraordinary, such as sale or purchase of assets, contingent liability, or litigation;

- (vi) compliance with generally accepted accounting standards in Hong Kong and the PRC (in particular, consideration should be given to the scope of non-conformity of the Company's policy with Hong Kong and PRC accounting practice principles and reasons for any deviation);
- (vii) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (viii) consistencies amongst the various financial statements;
- (ix) consistencies of the financial statements with those submitted to the tax authorities or other regulatory bodies; and
- (x) whether the directors report and letter from the chairman truly reflect the Company's results and such results are consistent with the status of what is reflected in the various statements.

(b) With regard to (a) 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 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 auditors;

II. Oversight of the Company's financial reporting system, risk management and internal control systems

The Audit Committee shall:

- (a) review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, review the Company's risk management and internal control systems;
- (b) review the draft representation letter prior to approval by the Board;
- (c) discuss the risk management and internal control systems with management to ensure that management has performed its duty to implement effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (d) 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;

- (e) where an internal audit function exists, 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 review and monitor its effectiveness;
- (f) review the Company's financial and accounting policies and practices and consider whether they are appropriate;
- (g) review the management letters of the international and domestic external auditors, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- (h) ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (i) apprise the Board of significant developments in the course of performing the above duties;
- (j) consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the response of the Company's management into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations;
- (k) recommend to the Board any appropriate extensions to, or changes, in the duties of the Audit Committee;
- (l) discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
- (m) 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;
- (n) review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (o) report to the Board on the above matters; and
- (p) consider and carry out other matters, as by the Board may delegate from time to time.

III. Relationship with the Company's auditors

The Audit Committee shall act as the key representative body for overseeing the issuer's relations with the external auditors. It shall:

- (a) be primarily responsible for making recommendations to the Board on the

appointment, reappointment and removal of the external auditors (both international and domestic auditors), and approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;

- (b) to review with the Company's management, external auditors and internal auditor, where an internal audit function exists in the Company, the adequacy of the Company's policies and system regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the Directors to be included in the annual accounts prior to endorsement by the Board;
- (c) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with both the international and domestic auditors the nature and scope of the audit and reporting obligations before the audit commences to ensure coordination of the respective work of the auditors; The Audit Committee should understand the factors considered by the external auditors in determining their audit scope. The external audit fees are to be negotiated by management of the Company, and presented to the Audit Committee for review and approval annually;
- (d) formulate and implement policies on engaging an external auditors to supply non-audit services. For this purpose, "external auditors" 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;
- (e) to seek from the external auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff; and
- (f) to evaluate the cooperation received by the external auditors, including their access to all requested records, data and information; obtain the comments of management of the Company regarding the responsiveness of the external auditors to the Company's needs; inquire of the external auditors as to whether there have been any disagreements with management of the Company which if not satisfactorily resolved would result in the issue of a qualified report on the Company's financial statements.

IV. Making recommendations for the appointment and dismissal of the chief financial officer of the Company

The Audit Committee shall:

- (a) conduct checks on the qualifications of the candidate(s) for the chief financial officer of the Company, select the candidate(s) of the chief financial officer of the Company or make recommendations to the Board on the selection of such candidate(s) nominated for the chief financial officer of the Company; and

- (b) make recommendations to the Board regarding the appointment , reappointment or dismissal of the chief financial officer of the Company, and succession planning for the chief financial officer of the Company.

Reporting

- Article 31.** The Audit Committee shall report directly to the Board at least twice every year and submit to the Board its work report at least once a year.
- Article 32.** Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
- Article 33.** The convenor of the Audit Committee should attend the Company's annual general meeting to answer shareholders' questions on the Audit Committee's activities.

Publication of the Terms of Reference

- Article 34.** The terms of reference of the Audit Committee will be posted on the website of the Company and the website of The Stock Exchange of Hong Kong Limited.