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**PHARMARON BEIJING CO., LTD.**

**TERMS OF REFERENCE OF  
THE AUDIT COMMITTEE OF THE BOARD**

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## TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD

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 Administrative Measures for Independent Directors of Listed Companies and other laws, regulations and regulatory documents and 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 review the Company’s financial information and its disclosure, monitor and evaluate internal and external audit work and internal control.

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, who are not members of the senior management of the Company, all of whom shall be non-executive directors and at least one accounting professional. 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. Before the newly elected members take office, the original members shall remain as a member and perform their relevant duties 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 following matters shall be submitted to the Board for deliberation after being approved by a majority of all members of the Audit Committee:

- (1) Disclosure of financial information in financial reports and periodic reports, internal control evaluation reports;
- (2) Hiring or dismissing the accounting firm engaged to carry out the Company's audit;
- (3) Appointment or dismissal of the Company's financial controller;
- (4) Changes in accounting policies, accounting estimates or corrections of material accounting errors for reasons other than changes in accounting standards;
- (5) Other matters provided for by laws and regulations, relevant provisions of the stock exchange where the Company's shares are listed, and the Company's Articles of Association.

Article 11 The Audit Committee shall direct and supervise the work of the internal audit department. In directing and supervising the work of the internal audit department, it shall perform the following main duties:

- (1) Guiding and supervising the establishment and implementation of the internal audit system;
- (2) Reviewing the Company's annual internal audit work plan;
- (3) Supervising the implementation of the Company's internal audit program;
- (4) Guiding the effective operation of the internal audit department, the internal audit department of the Company shall report to the Audit Committee, and all types of audit reports submitted by the internal audit department to the management, plans for the rectification of audit issues and the status of rectification shall be submitted to the Audit Committee at the same time;
- (5) Reporting to the Board on the progress and quality of internal audit work, as well as significant issues identified;
- (6) Coordinating the relationship between internal audit departments and external audit units such as accounting firms and national audit institutions.

In addition to the above, the Audit Committee shall be responsible for the following:

- (1) to review the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
- (2) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have 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;
- (3) 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;
- (4) where an internal audit function exists, 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;
- (5) to review the Company and its controlled subsidiaries' financial and accounting policies and practices;
- (6) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (7) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- (8) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (9) to report to the Board on the matters in this code provision; and
- (10) to consider other topics, as defined by the Board.

Article 12 The Audit Committee shall supervise the internal audit department to conduct inspections of the following matters at least once every six months, issue inspection reports and submit them to the Audit Committee. If the inspection finds that the Company is in violation of laws and regulations or operating irregularities, it shall promptly report to the Shenzhen Stock Exchange and urge the Company to disclose the same to the public:

- (1) The implementation of major events such as the use of the Company's proceeds from fund-raising, the provision of guarantees, related transactions, high-risk investments such as securities investments and derivatives transactions, the provision of financial assistance, the purchase or sale of assets, and foreign investments;
- (2) The Company's large amount of financial transactions and financial transactions with directors, supervisors, senior management, controlling shareholders, de facto controllers and their associates.

The Audit Committee shall issue a written assessment of the effectiveness of the Company's internal controls based on the internal audit reports and related information submitted by the internal audit department and report to the Board.

Article 13 The Audit Committee shall issue an annual internal control evaluation report based on the evaluation report issued by the internal audit department and relevant information. The internal control evaluation report shall include at least the following:

- (1) Statement of the Board on the authenticity of the internal control report;
- (2) Overall status of internal control evaluations;
- (3) The basis, scope, procedures and methods of internal control evaluation;
- (4) Deficiencies in internal control and their identification;
- (5) Rectification of internal control deficiencies from the previous year;
- (6) Corrective measures to be taken for deficiencies in internal control during the year;
- (7) Conclusion on the effectiveness of internal controls.

Article 14 The Audit Committee shall review the Company's financial reports and express an opinion on the truthfulness, accuracy and completeness of the financial reports, focusing on significant accounting and auditing issues in the Company's financial reports, with particular attention to significant opinions contained in the audit report on the financial reports, in particular (i) any changes in accounting policies and practices; (ii) areas involving significant judgment; (iii) significant adjustments resulting from the audit; (iv) the going concern assumptions and any qualifications; (v) compliance with accounting standards; and (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting; and the possible existence of fraud, malpractice and material misstatement in relation to the financial accounting report, and to monitor the correction of problems in the financial report. The Audit Committee shall liaise with the Board and senior management on the above matters (i). The Committee shall meet at least twice a year with the Company's external auditors; and (ii) consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and shall give due consideration to any matters that have been raised by the Company's financial reporting staff, compliance officer or accounting firm.

Article 15 The Audit Committee shall make recommendations to the Board on the appointment, re-election and removal of the external auditor, review the audit fees and employment contract of the external auditor, and deal with any issues relating to the resignation of the external auditor or removal of the external auditor, and shall not be subject to the undue influence of the Company's major shareholders, de facto controllers, or directors, Supervisors and senior management.

The Audit Committee shall urge the external auditor to be honest, trustworthy and diligent, strictly comply with the business rules and industry self-discipline, strictly implement the internal control system, verify and validate the Company's financial reports, fulfill the duty of special care, prudently express professional opinions, and review and supervise the external auditor's independence and objectivity, as well as the validity of the auditing procedures in accordance with the applicable standards; the Audit Committee shall discuss the nature and scope of the audit and related reporting responsibilities with the external auditor prior to the commencement of the audit work. The Board shall establish and implement policy on the provision of non-audit services by the external auditor. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

Article 16 If the directors, supervisors and senior management of a Company discover that there are false records, misleading statements or material omissions in the financial report issued by the Company and report the same to the Board or the Supervisory Committee, or if the sponsoring organization, independent financial adviser or external auditing organization points out to the Board or the Supervisory Committee that there are false records, misleading statements or material omissions in the financial report of the Company, the board shall promptly report and disclose the same to the Shenzhen Stock Exchange.

Where a company discloses relevant information in accordance with the preceding paragraph, it shall disclose in the announcement the material problems with the financial report, the consequences that have been or may be caused, and the measures that have been taken or are proposed to be taken.

The Audit Committee shall urge the relevant responsible departments of the Company to formulate rectification measures and rectification timeframes, conduct follow-up reviews, monitor the implementation of rectification measures and disclose the completion of rectification in a timely manner.

Article 17 The Company shall provide the Audit Committee with the necessary working conditions, and staff designated personnel or institutions to undertake the daily work of the Audit Committee such as work liaison, meeting organization, material preparation and file management. The management of the company and relevant departments shall cooperate with the Audit Committee during its course of undertaking its duties.

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. The Audit Committee shall hold regular meetings at least once a quarter, and may meet on an ad hoc basis when proposed by two or more of its members, or when the convenor deems it necessary.

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, but in case of an emergency, an extraordinary meeting may be called at any time after confirming that all persons who are required to attend the meeting have received notice of the meeting. The notice of the meeting shall be issued by the 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 behaves. 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, they shall be implemented in accordance with the relevant laws and regulations of the State and the Articles of Association.

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.

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