

PegBio Co., Ltd.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Chapter 1 General Provisions

Article 1 Pursuant to the Company Law of the PRC (the “**Company Law**”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Corporate Governance Code as set out in Appendix C1 to the Listing Rules, A Guide for Effective Audit Committees published by the Hong Kong Institute of Certified Public Accountants and other relevant laws, regulations, regulatory documents as well as the Articles of Association of PegBio Co., Ltd. (the “**Articles of Association**”) applicable after the issuance of H Shares, PegBio Co., Ltd. (the “**Company**”) hereby establishes the Audit Committee of the Board and formulates the Terms of Reference of the Audit Committee of the Board of Directors of PegBio Co., Ltd. (the “**Terms of Reference**”) based on the actual conditions of the Company, in order to reinforce the decision-making function of the Board of the Company, continuously improve the construction of its internal control systems, ensure the effective supervision and management of the Board, and constantly enhance its corporate governance structure.

Article 2 The Audit Committee is a specialized working body under the Board. Its main functions include reviewing the financial status of the Company, reviewing the financial information of the Company, making judgment on the truthfulness, completeness and accuracy of the financial information, and checking the implementation and effectiveness of the internal control systems. It is also mainly responsible for communicating with and supervising the external audit firms, supervising internal audit, evaluating and improving the internal control systems of the Company and making proposals on the same and assessing the risks of, among others, the significant investment projects in operation. The Audit Committee shall report to the Board.

Chapter 2 Composition

Article 3 The Audit Committee shall consist of three or an odd number of over three directors. All members of the Audit Committee shall be non-executive directors, with a majority being independent non-executive directors. A majority of the members shall not hold any position other than directorships in the Company, and shall not have any relationship with the Company that may affect their independent and objective judgment.

Members of the Audit Committee shall have certain working experience in the financial, accounting, auditing and/or legal industry, and be equipped with relevant professional expertise or working experience. Among those, at least one member shall be an independent non-executive director with appropriate professional qualifications or with appropriate accounting or related financial management expertise as stipulated by Rule 3.10(2) of the Listing Rules.

A partner of the current external audit firm engaged by the Company shall be prohibited from serving as a member of the Audit Committee within two years from the date on which such person ceases to be a partner of the audit firm or ceases to have any financial interest in the audit firm, whichever is later.

Article 4 Members of the Audit Committee shall be nominated by the chairman of the Board, more than half of the independent non-executive directors or more than one-third of the directors, and shall be elected by a majority of the directors of the Board. After the proposal for electing members of the Audit Committee has been approved, the new members of the Audit Committee shall take office immediately after the conclusion of the meeting of the Board. But the elected independent non-executive directors who have the financial expertise required by the Listing Rules shall be automatically qualified as member candidates without nomination. Where there is only one independent non-executive director who is a person with financial expertise, he/she shall be automatically elected as a member.

Article 5 The Audit Committee shall have one convener, being the chairman of the Audit Committee, who shall be an independent non-executive director and shall be an accounting professional. The chairman of the Audit Committee shall be appointed and removed by the Board and shall be in charge of the work of the Audit Committee. When the chairman of the Audit Committee is unable to or fails to perform his/her duties, an independent non-executive director shall be jointly elected by more than half of the members to perform the chairman's duties.

Article 6 The term of office of the Audit Committee shall be the same as that of the Board. A member may serve consecutive terms if re-elected upon expiry of his/her term of office. During his/her term of office, if any member ceases to be a director, or any member with the capacity of an independent non-executive director ceases to have the independence as stated in the Company Law, the Articles of Association or the Listing Rules, he/she shall automatically be disqualified as a member of the Audit Committee. A member may submit his/her resignation report in writing to the Board prior to the expiry of his/her term of office to resign from his/her position in the Audit Committee. The resignation report shall include a statement of the reasons for such resignation and if necessary the matters that should be brought to the attention of the Board. Where the composition of the Audit Committee fails to meet the requirements specified in Article 3 and Article 5 of the Terms of Reference, the Board shall immediately inform The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"), state relevant details and reasons by announcement according to the requirements of the Listing Rules, and make adjustments or fill the vacancy according to Article 3 to Article 5 of the Terms of Reference within three months from the date when the relevant requirements are not met. The term of office for the member filling the vacancy shall expire upon the expiration of his/her term of office as a director. A member of the Audit Committee shall not, before the expiry of his/her term of office, be relieved of his/her duties without causes except for the situations that prevent such member from holding office as specified in the Company Law, the Articles of Association or the securities regulatory rules of the place where the Shares of the Company are listed, etc.

Article 7 Apart from the directors' remuneration and reimbursement of advancement, the members shall not directly or indirectly charge the Company any consulting fee, advisory fee or other rewards as a member of the Audit Committee.

Chapter 3 Duties and Authorities

Article 8 The Audit Committee shall make available the Terms of Reference explaining its role and the authority delegated to it by the Board on the websites of The Hong Kong Stock Exchange and the Company. The Company shall provide the Audit Committee sufficient resources to perform its duties. The specific duties of the Audit Committee mainly include:

- (I) to make recommendations on the appointment of the external audit firm, to review annually the performance of the external audit firm, to submit to the Board a summary report on the audit work conducted by the external audit firm for the Company during the year, to make recommendations to the Board on the appointment, re-appointment and removal of the external audit firm for the next year, to approve the remuneration and terms of engagement of the external audit firm, and to deal with any matters related to the resignation or dismissal of the external audit firm. Where the Board disagrees with the opinion of the Audit Committee on the selection, appointment, resignation or dismissal of the external audit firm, the Company shall include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and the reasons why the Board holds different opinions;
- (II) to act as the Company's representative in liaising with the external audit firm, to be responsible for the communication between the Company's internal audit department and the external audit firm, including reviewing and monitoring the independence and objectivity of the external audit firm, the effectiveness of the audit process in accordance with applicable standards; and, prior to the commencement of the audit, discuss with the external audit firm about the nature, scope and method of audit and the reporting obligations during the year, and negotiate with the external audit firm to determine the schedule of auditing the financial report of the year, as well as procure the external audit firm to submit audit reports within the predetermined timelines and so forth. If more than one external audit firm are involved in the audit, the Audit Committee shall make sure they coordinate with each other;
- (III) to formulate and implement, in accordance with the operational needs, policy on the provision of non-audit services by the external audit firm (including its affiliates). The Audit Committee shall report and make recommendations to the Board if any actions or remedial measures are considered necessary;

For the purpose of this Article 8(III), the affiliates of the external audit firm shall include any entity that is under common control, ownership or management with the external audit firm engaged by the Company or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be a part of the external audit firm engaged by the Company nationally or internationally. The Audit Committee shall ensure that the provision of non-audit services by the external audit firm will not compromise its independence or objectivity. In terms of non-audit services, the Audit Committee shall consider the following matters:

1. in terms of skills and experience, whether the relevant external audit firm is suitable for providing non-audit services;
2. whether pre-cautions are taken to ensure that the external audit firm's objectivity and independence in auditing will not be influenced by their provision of such services;
3. the nature and relevant fee level of the non-audit services, as well as separate and lump sum fee of the services provided by such external audit firm; and
4. the standard for determining auditors' remuneration.

The Audit Committee shall report to the Board on the actions or improvements it deems necessary, and make recommendations on possible measures to be taken;

- (IV) to review the Company's accounting policies, financial position, financial reporting procedures and financial controls; to review the integrity, accuracy and fairness of the Company's financial statements, quarterly reports (if prepared for publication), interim reports and annual reports and accounts, and to review significant financial reporting opinions contained therein, as well as the disclosure of the Company's financial information. Before submitting relevant statements and reports to the Board, the review shall focus particularly on the following: any changes in accounting policies, practices and estimates of the Company during the reporting period; any issue involving significant judgments; significant adjustments made as required by the external audit firm upon completion of audit; the going concern assumptions or any qualified opinion; and whether the financial accounting complies with accounting standards and provisions relating to financial reporting under the laws, administrative regulations, securities regulatory rules of the place where the Shares of the Company are listed and other applicable requirements;

Regarding the above items which require particular focus in the review process, the Audit Committee shall communicate with the Board, senior management and internal audit department and external audit firm in a timely manner. The Audit Committee shall meet, at least twice a year, with the external audit firm without the attendance of any executive directors (except for the one invited by the Audit Committee). The Audit Committee shall consider any material or unusual matters reflected or required to be reflected in the Company's reports and accounts, and give due consideration to matters raised by the accounting and financial department of the Company, relevant regulatory departments or the external audit firm;

- (V) to discuss questions and doubts raised by the external audit firm upon its completion of reviewing the interim accounts and auditing the annual accounts of the Company and any other matters that the external audit firm may wish to discuss (in the absence of management if necessary);
- (VI) to examine the financial policies, internal audit systems, internal control systems and risk management systems of the Company and provide opinions and recommendations for improvements, and also:
1. to examine the Company's financial and accounting policies and practices and any relevant changes;
 2. to monitor the preparation process of the periodic financial reports, including quarterly reports (if any), interim financial reports and annual financial reports, and review the periodic financial reports, financial results announcements and other relevant information;
 3. to discuss with the management and assess the effectiveness of the financial control, internal control and risk management systems, so as to ensure that the management has performed its duties in establishing effective financial control, internal control and risk management systems; such discussions shall cover the adequacy of resources, employees' qualifications and experience in relation to the Company's accounting and financial reporting function, as well as the sufficiency of training programs received by such employees and the budget in relation to

the Company's accounting and financial reporting function. If the annual report contains any statement about the internal control systems of the Company, the Audit Committee shall review the statement before submitting to the Board for approval;

4. to consider, on its own initiative or as delegated by the Board, the important findings of the investigation regarding internal control matters and the measures adopted by the management in response to these findings;
5. to ensure co-ordination between the audit department of the Company and the external audit firm; and also to ensure that the audit department of the Company is adequately resourced and has appropriate authorities and status within the Company, and to review and monitor the effectiveness of the Company's audit department;
6. to review the operating, financial and accounting policies and practices of the Company and its subsidiaries (if applicable in the future);
7. to review the external audit firm's letter of examination or management proposals, material queries raised by the external audit firm on accounting records, financial accounts or control systems, and the management's responses to such queries;
8. to set up, jointly with the Board, the Company's policies relating to the engagement of employees and former employees of the external audit firm and monitor the implementation of such policies. The Audit Committee shall consider whether the relevant circumstances would impair or seem to impair the external audit firm's judgment or independence regarding the audit;
9. to act as the key representative between the Company and the external audit firm and oversee their relationship;
10. to ensure the Board's timely response to the letter of examination or management proposals issued by the external audit firm to the management;
11. to formulate and review the policies and practices on corporate governance of the Company and make recommendations to the Board;
12. to review and monitor the training and continuous professional development of the directors and senior management;
13. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
14. to supervise the work of the internal audit department of the Company and provide opinions and recommendations on the appraisal and change of persons in charge of the internal audit department of the Company;
15. to supervise the staff of the Company as to potential or possible improprieties in financial reporting, internal control or other matters;

16. to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report;
 17. to report matters related to the above to the Board and to consider other matters as arranged by the Board;
 18. to review, report to the Board and disclose in the Corporate Governance Report the matters specified in Code Provision D3.3 of Part 2 of the Corporate Governance Code under Appendix C1 to the Listing Rules; and
 19. 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;
 20. to consider other topics as defined by the Board.
- (VII) the Audit Committee shall establish relevant procedures to ensure fair and independent investigation and resolution of the following matters:
1. to receive and deal with known complaints on accounting, internal control or audit of the Company, and guarantee confidentiality of such complaints;
 2. to receive and deal with open or anonymous complaints made by employees on possible improprieties in accounting, audit, internal control or other matters, and guarantee confidentiality of such complaints. To review the procedures that the Company's employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action by the Company;
- (VIII) to advise and ensure that the Board takes effective remedial measures for the Company's failure to comply with the requirements of the Listing Rules regarding the establishment of an Audit Committee.
- (IX) to complete other tasks assigned by the Board.
- (X) to perform other duties required by the laws, administrative regulations, regulatory documents, regulatory rules of the place where the Shares of the Company are listed and relevant regulatory bodies including the stock exchange of the place where the Shares of the Company are listed and the securities regulatory authorities of the place where the Shares of the Company are listed, as well as other duties imposed by the Articles of Association, the rules of procedures of the Board of PegBio Co., Ltd. and the Terms of Reference.

Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should receive a statement from the Audit Committee explaining its recommendation, which will be disclosed in the Company's Corporate Governance Report in accordance with Appendix C1 to the Listing Rules.

The senior management and relevant departments shall be cooperative and supportive to the Audit Committee and shall actively provide adequate information in a timely manner to enable the Audit Committee to make informed decisions. The information supplied by the management must be complete and reliable. The finance department shall regularly and faithfully provide financial and accounting information including financial reports and capital operation reports to the Audit Committee, report significant business operating activities in a timely manner, actively cooperate with the Audit Committee in its work, and listen carefully to the recommendations provided, and requests made, by the Audit Committee.

Article 9 The Audit Committee shall be accountable to the Board and proposals shall be submitted to the Board for its consideration and decision. The Audit Committee shall cooperate with the Supervisory Committee in supervising audit activities.

Article 10 The following matters shall be approved by a majority of all members of the Audit Committee before the Board makes any resolutions:

- (1) to appoint or dismiss the accounting firm undertaking the audit business of the Company;
- (2) to appoint or dismiss of the chief financial officer;
- (3) to disclose the financial and accounting reports;
- (4) other matters required by the relevant regulatory authorities such as the securities regulatory authorities of the place where the Shares of the Company are listed.

Article 11 The main terms of reference of the chairman of the Audit Committee are:

- (I) to convene and preside over the meetings of the Audit Committee;
- (II) to preside over the daily operation of the Audit Committee;
- (III) to review and sign the reports of the Audit Committee and other important documents;
- (IV) to inspect the implementation of the resolutions and recommendations of the Audit Committee;
- (V) to report to the Board on behalf of the Audit Committee;
- (VI) to perform such other duties as shall be performed by the chairman of the Audit Committee.

Chapter 4 Working Procedures

Article 12 The audit department, which is responsible for the Company's internal audit, is under the direct supervision of the Audit Committee, and is the daily working body of the Audit Committee.

Article 13 The audit department is in charge of the preliminary preparation for the decision-making of the Audit Committee. It provides the following written materials of the Company:

- (I) relevant financial reports of the Company;
- (II) the work reports of internal audit department and external audit agency;
- (III) external audit contracts and relevant work reports;
- (IV) disclosure of information to the public by the Company;
- (V) the Company's related (connected) transactions agreements, audit reports on major related (connected) transactions and feedback on the investigation of related (connected) persons;
- (VI) financial and legal information about major investment projects;
- (VII) relevant work reports on the Company's internal control systems and its implementation;
- (VIII) other relevant information.

The Audit Committee performs the main duties under Article 8 of the Terms of Reference based on the information provided by the daily working body.

Article 14 The working manner of the Audit Committee:

- (I) During the meetings of the Audit Committee, the Audit Committee discusses the work plans for proceeding with internal audit, listens to the work reports made by the Company's finance department, comments on the reports provided by the audit department, and reviews the quarterly (if any), interim and annual financial reports of the Company, etc. The Audit Committee may make decisions based on the opinions of experts from the professional institutions and submit the matters that require to be decided by the Board to the Board for discussion, which mainly include:
1. the evaluation of work conducted by the external audit firm, the appointment and removal of the external audit firm, approval of the remuneration and appointment terms applicable to the external audit firm;
 2. whether the Company's internal control systems and internal audit systems have been effectively implemented, and whether its financial reports are complete and true;
 3. whether the information disclosed to the public by the Company (including the financial reports) is objective and true, and whether the major related (connected) transactions of the Company are in compliance with the relevant laws, administrative regulations, regulatory rules of the place where the Shares of the Company are listed, and the Articles of Association, etc;
 4. evaluation of the work of the Company's financial department, the audit department and their respective persons in charge;
 5. other relevant matters.
- (II) In the preparation and the disclosure of the Company's annual financial report, the Audit Committee shall follow the following working rules and procedures:
1. to negotiate and determine the schedule of the audit work of the financial year with the external audit firm which is responsible for the audit of the Company's financial report of that year (the "**Annual Audit CPA**") in a timely manner after the end of the financial year;
 2. to procure the submission of the audit reports by the Annual Audit CPA within the predetermined time limit;
 3. to review the financial accounting statements prepared by the Company before the Annual Audit CPA commences its work;
 4. to review the financial accounting statements of the Company after the Annual Audit CPA has issued its preliminary audit opinion;
 5. to convene meetings of the Audit Committee to review the financial reports, make recommendations for the re-appointment or replacement of the Annual Audit CPA for the following year, and compile a report summarizing the audit work engaged by the Annual Audit CPA for the current financial year.

The chairman of the Audit Committee or (if the chairman is absent) another member of the Audit Committee (who must be an independent non-executive director) shall attend the annual general meeting of the Company and respond to the enquiries from shareholders regarding activities and responsibilities of the Audit Committee.

Chapter 5 Rules of Procedure

Article 15 Meetings of the Audit Committee are classified as regular meetings and extraordinary meetings.

Regular meetings of the Audit Committee shall be held at least twice a year and once in half a year, and shall be convened before the regular meeting of the Board, for discussing the opinions and recommendations to be submitted to the Board. The interim and annual financial statements of the Company shall be reviewed and discussed at the regular meetings.

The chairman of the Audit Committee may convene the extraordinary meetings at his/her own discretion or at the request of the external audit firms or internal audit department. The extraordinary meeting may also be convened upon the proposal submitted by more than half of the members or proposed by the chairman of the Board.

Article 16 The meetings of the Audit Committee shall be convened by the chairman of the Audit Committee. Notices of meetings, signed by the chairman of the Audit Committee, and materials for meetings shall be delivered to all members of the Audit Committee three days prior to the meeting (excluding the date of the meeting). Upon unanimous consent of all members of the Audit Committee, the requirement for such prior notice period may be exempted. Extraordinary meetings shall not be subject to the above time limit for notice.

Article 17 The meetings of the Audit Committee shall be presided over by the chairman of the Audit Committee; if the chairman is unable to attend, he/she may entrust another member (who shall be an independent non-executive director) to preside over the meeting.

Article 18 The quorum of meetings of the Audit Committee shall be at least two-thirds of the members, including at least one independent non-executive director. If a member is unable to attend a meeting, he/she may by a written power of attorney appoint another member to attend and vote at the meeting on his/her behalf. The power of attorney shall set out the name of the proxy, the matters delegated, scope of authorization and the validity period, and shall be signed or stamped by the appointer and submitted to the presider of the meeting no later than the time when voting takes place in the meeting. If a member fails to attend a meeting of the Audit Committee and fails to appoint another member to attend on his/her behalf, he/she shall be deemed to have waived his/her right to vote at that meeting.

The resolutions made by the Audit Committee shall be approved by a majority of all members, and relevant resolutions and minutes of meetings shall be signed by the participating members. Each member shall have one vote and may vote “for”, “against” or “abstain” from voting on a given matter. Where the respective votes for and against a resolution are equal in number, the chairman of the Audit Committee shall have a casting vote.

Article 19 Meetings of the Audit Committee may be held by on-site meetings, teleconferences, video conferences, circulation of documents, facsimile, email or other appropriate means.

Article 20 The head of the audit department may attend the meetings of the Audit Committee, and where necessary, directors, supervisors and senior management may be invited to attend such meetings, and the persons attending the meetings may explain or illustrate the matters discussed at the meetings, but non-members of the Audit Committee shall have no voting rights.

Where any member has any interest in the matters to be deliberated by the Audit Committee, such member shall abstain from voting on the matters.

Article 21 The Company shall provide the Audit Committee with sufficient resources to perform its duties. The Audit Committee's working expenses shall be covered by the budget of the Company. The Audit Committee shall have the right to, when performing its duties and if necessary, engage lawyers, certified public accountants, certified auditors and other professionals to provide professional opinions on its decision-making and the reasonable expenses incurred therefrom shall be borne by the Company.

Article 22 The convening procedures, voting method and resolutions passed at the meetings of the Audit Committee shall comply with the provisions of relevant laws, administrative regulations, the regulatory rules of the place where the Shares of the Company are listed, the Articles of Association and the Terms of Reference.

Article 23 The Audit Committee shall keep written minutes of its meetings, which should record in sufficient detail the matters considered and decisions reached at the meetings, including any concerns raised or dissenting views expressed by the directors. Draft and final versions of the minutes of the meetings shall be circulated to all members within a reasonable time after the end of the meetings. The draft versions are for their comment and the final versions are for their record.

The minutes of the meetings shall be signed by the members present at the meetings, and be submitted to all members of the Board for circulation. The minutes of the meetings shall be kept by a duly appointed secretary of the meeting. The minutes shall be kept for at least 10 years during the existence of the Company. The minutes should be open for inspection at any reasonable time on reasonable notice by any director.

Resolutions of the Audit Committee shall come into force after being signed by the attending members. No amendment or modification shall be made to any resolutions of the Audit Committee that have come into force unless in accordance with the relevant procedures required by laws, administrative regulations, regulatory rules of the place where the Shares of the Company are listed, the Articles of Association and the Terms of Reference. Resolutions passed at the meetings of the Audit Committee and the voting results shall be reported in writing to the Board.

Article 24 The minutes of the Audit Committee meetings shall at least include the followings: the date, venue and name of convener of the meeting; the names of the attendees with specific notes on whether a proxy is entrusted for the meeting; the meeting agenda; the key points of the members' speeches; the voting method and poll results of each resolution or proposal; other matters that need to be indicated and recorded in the meeting minutes.

Article 25 Members present at meetings of the Audit Committee and persons attending such meetings shall perform a duty of confidentiality regarding matters discussed at such meetings. No unauthorized disclosure of such information shall be allowed, unless otherwise stipulated under relevant laws, administrative regulations, regulatory rules of the place where the Shares of the Company are listed or the relevant regulatory bodies such as the securities regulatory authorities of the place where the Shares of the Company are listed.

Chapter 6 Supplementary Provisions

Article 26 The phrases “more than” and “at least” as referred to herein are inclusive of the number while “majority” is exclusive of the number.

Article 27 The Terms of Reference shall be deliberated and approved by the Board, and shall come into force and be implemented from the day on which H Shares of the Company in the public offering are listed and traded on the main board of Hong Kong Stock Exchange. The Terms of Reference shall be amended and interpreted by the Board.

Article 28 Matters not covered herein shall be implemented in accordance with the relevant provisions of relevant laws, administrative regulations, regulatory documents, regulatory rules of the place where the Shares of the Company are listed and the Articles of Association. Where the Terms of Reference conflicts with any provisions of relevant laws, administrative regulations, regulatory documents, regulatory rules of the place where the Shares of the Company are listed or the Articles of Association, such provisions of relevant laws, administrative regulations, regulatory documents, regulatory rules of the place where the Shares of the Company are listed and the Articles of Association shall prevail. Where the Terms of Reference conflicts with the laws, administrative regulations, regulatory documents or regulatory rules of the place where the Shares of the Company are listed which are promulgated in the future or the Articles of Association as amended through lawful procedures, such provisions of relevant laws, administrative regulations, regulatory document, regulatory rules of the place where the Shares of the Company are listed and the Articles of Association shall prevail, and the Terms of Reference shall be amended accordingly as soon as practicable and submitted to the Board for consideration and approval.