

# **Sunshine Lake Pharma Co., Ltd.**

## **Terms of Reference of the Audit Committee of the Board of Directors**

### **Chapter 1 General Provisions**

**Article 1** In order to regulate and enhance the decision-making mechanism of the board of directors (the “Board of Directors”) of Sunshine Lake Pharma Co., Ltd. (the “Company”), to ensure the effective supervision by the Board of Directors over the operational management, and to improve the corporate governance structure of the Company, pursuant to the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, the Code of Corporate Governance for Listed Companies, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the Guidelines for Effective Audit Committees issued by the Hong Kong Institute of Certified Public Accountants, and other local and overseas regulations for listed companies, as well as the Articles of Association of Sunshine Lake Pharma Co., Ltd. (the “Articles of Association”) which came into effect upon the listing of the Company’s H Shares, the Company has set up the audit committee of the Board of Directors (the “Audit Committee”) and formulated these terms of reference.

**Article 2** As a specific working body set up by the Board of Directors in accordance with the Articles of Association, the Audit Committee shall, within its authorities, assist the Board of Directors in carrying out relevant work. Its main responsibilities are to oversee, examine, and evaluate the internal controls, financial information, and internal and external audits of the Company, to maintain an appropriate relationship with the external auditors of the Company, and to report its work to the Board of Directors and be responsible to the Board of Directors.

### **Chapter 2 Composition**

**Article 3** The Audit Committee shall comprise at least three directors, all of whom shall be non-executive directors, with a majority being independent non-executive directors. Members of the Audit Committee shall possess professional knowledge and business experience in the areas of, among others, finance or law, which are commensurate with their duties and responsibilities, and at least one of whom shall be an independent non-executive director with appropriate professional qualifications recognized by the listing rules of the securities exchange where the shares of the Company are listed, or accounting or related financial management expertise, and in compliance with the qualification requirements for financial professionals of the Audit Committee as required by the Listing Rules. No former partner of the audit firm currently responsible for auditing the Company’s accounts shall be allowed to serve as a member of the Audit Committee within two years from the following dates (whichever is later):

- (I) the date on which such person ceases to be a partner of the said audit firm; or
- (II) the date on which such person ceases to be entitled to the financial interests of the said audit firm.

**Article 4** The members and chairman of the Audit Committee shall be nominated by the chairman of the Board of Directors, more than half of the independent non-executive directors or more than one-third of all directors for election by the Board of Directors.

**Article 5** The Audit Committee shall have a chairman who shall be a member and also an independent non-executive director. The chairman of the Audit Committee shall be responsible for leading the work of the Audit Committee. The chairman shall be elected by the Board of Directors.

The chairman of the Audit Committee is responsible for convening and presiding over meetings of the Audit Committee. Where the chairman of the Audit Committee is unable or fails to perform his/her duties, he/she shall designate another member to perform duties on his/her behalf. In the event that the chairman of the Audit Committee neither performs his/her duties nor designates another member to perform duties on his/her behalf, any member may report the situation to the Board of Directors, and the Board of Directors shall then appoint a member to perform the duties of the chairman of the Audit Committee.

**Article 6** The term of office of the members of the Audit Committee shall be the same as that of the directors in the same session. A member may serve consecutive terms if re-elected upon expiry of his/her term. During his/her term of office, if any member no longer holds the position as a director of the Company or any member who shall be an independent non-executive director ceases to have the independence as stated in the Listing Rules, he/she shall automatically lose his/her position as a member, and the vacancy shall be filled by the Board of Directors in accordance with the provisions of Articles 3 to 5 above. A member may submit resignation to the Board of Directors prior to the expiration of his/her term of office. Such resignation letter shall specify the reasons for the resignation and any matters which need to be brought to the attention of the Board of Directors. If the number of members of the Audit Committee falls below the minimum number as provided herein, the resigning member shall continue to perform his/her duties until the appointment of a substitute member to fill his/her place by the Board of Directors.

**Article 7** A member of the Audit Committee may concurrently serve as a member of other special committees under the Board of Directors if he/she is capable of performing his/her duties. The Audit Committee shall have a working team, as daily operational body of the Audit Committee, to deal with daily matters, liaison and organization of committee meetings. The Audit Committee shall appoint a secretary for its meetings.

### **Chapter 3 Duties and Authorities**

**Article 8** The members of the Audit Committee shall have the professional knowledge, experience and skills commensurate with their duties in the Audit Committee. Their main duties and authorities include:

- (I) to make recommendations to the Board of Directors on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and to deal with any issues relating to the resignation or dismissal of such auditors;
- (II) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (III) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee shall report to the Board of Directors, identifying and making recommendations on any matters where action or improvement is needed;

- (IV) to review and provide opinions on the financial information of the Company and its disclosure;
- (V) to oversee the Company's financial reporting system and internal control procedures; and
- (VI) to enhance the communication between internal auditors and external auditors.

**Article 9** Other duties and authorities of the Audit Committee include:

- (I) to monitor integrity of the Company's financial statements and annual reports and accounts, half-year reports and quarterly reports (if any), and to review significant financial reporting judgments contained in them; to oversee annual audit and make judgment on the truthfulness, accuracy and integrity of the information in the audited financial reports for the consideration of the Board of Directors;

Prior to submission of the relevant statements and reports to the Board of Directors, the Committee shall review the following matters, in particular:

1. any changes in accounting policies and practices;
2. major judgmental areas;
3. significant adjustments resulting from audit;
4. the going concern assumptions and any qualifications;
5. compliance with accounting standards;
6. compliance with relevant legal provisions on financial reporting and relevant requirements under the Listing Rules.

The Audit Committee shall maintain communication with the Board of Directors and senior management on the foregoing matters. The Audit Committee shall meet, at least twice a year, with the external audit firm. The Audit Committee shall pay attention to any significant or unusual items that are, or may need to be, reflected in the relevant reports and accounts, it shall give due consideration to any matters that have been raised by the Company's financial staff, head of internal audit department or the external audit firm;

- (II) to oversee the Company's financial reporting system and audit and evaluate the Company's internal control, including:
  1. to review the Company's financial control, internal control and risk management systems, mechanisms and policies;
  2. to discuss the risk management and internal control systems with the management to ensure that management has performed its duty to have effective internal control systems. This discussion shall include the adequacy of resources, staff qualifications and experience, training for employees and budget in relation to 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 of Directors 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 financial and accounting policies and practices of the Company (including its controlled subsidiaries);
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 of Directors will provide a timely response to the issues raised in the external auditor's management letter;
8. The Audit Committee shall have procedures to deal with the following matters:
  - (1) to receive, retain and deal with complaints received by the Company concerning accounting, internal control or auditing matters;
  - (2) employees of the Company may raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place to receive and deal with employee complaints or anonymous reports concerning accounting and auditing matters, and guarantee their confidentiality, enabling the Company to conduct fair and independent investigations and take appropriate actions on such matters;
  - (3) to coordinate the work of the internal audit function and the external audit firm; to ensure that the internal audit department has sufficient resources and appropriate standing within the Company; to discuss internal audit plans, receive and review work reports from the audit department, and to examine and oversee the effectiveness of internal audit;
  - (4) to make recommendations on the audit fee payable to the independent auditors of the Company;
  - (5) to oversee the performance of the external audit firm. The Audit Committee shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
  - (6) to act as the key representative body for overseeing the Company's relations with the external audit firm;

- (7) to develop and implement policy on engaging an external audit firm to supply non-audit services when necessary. The Audit Committee shall report and make recommendations to the Board of Directors if any actions or remedial measures are considered necessary;
- (8) other matters as authorized by the Board of Directors;
- (9) to confirm the list of the Company's connected persons, conduct an overall review of connected transactions and regular reviews of the overall situation of connected transactions, including a review of the decisions and implementation of all connected transactions of the Company within 10 days following the end of each half-year period, and a review of the overall situation of all connected transactions of the Company within 30 days following the end of each half-year period and report review comments to the Board of Directors and the board of supervisors of the Company; and
- (10) to comply with the relevant provisions of the Corporate Governance Code set out in Appendix C1 to the Listing Rules and report to the Board of Directors.

The Audit Committee may make proposals to the Board of Directors within the scope of its duties and authorities.

**Article 10** The Audit Committee shall be accountable to the Board of Directors and proposals of the Audit Committee shall be submitted to the Board of Directors for review and approval. The Audit Committee shall support the board of supervisors to conduct audit activities.

The Audit Committee shall, promptly after each meeting, provide the Board of Directors with meeting minutes, discussion details, materials and information in the form of, among others, reports, recommendations and summaries, for the review and decision-making of the Board of Directors.

**Article 11** The Audit Committee shall make its terms of reference publicly available on the website of The Stock Exchange of Hong Kong Limited and the Company's website, explaining its role and the authority delegated to it by the Board of Directors.

**Article 12** Where the Board of Directors disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company shall include in the corporate governance report a statement from the Audit Committee explaining its recommendation(s) and the reason(s) why the Board of Directors has taken a different view.

#### **Chapter 4 Decision-making Procedures**

**Article 13** The working group under the Audit Committee is responsible for making preliminary preparations for the decision-making process of the Audit Committee and providing written materials related to the Company:

- (I) the financial reports of the Company;
- (II) the work reports of internal and external auditors;

(III) the internal control system of the Company;

(IV) other relevant matters.

**Article 14** The Audit Committee shall provide written recommendations on the following matters of the Company to the Board of Directors for discussion:

(I) the objectivity and truthfulness of the financial reports of the Company;

(II) the performance of the external audit firm and the engagement and replacement of the external audit firm;

(III) the effectiveness of the internal audit system of the Company;

(IV) other relevant matters.

## **Chapter 5 Rules of Procedures for Meetings**

**Article 15** The Audit Committee shall hold meetings at least twice annually. Unless otherwise agreed or exempted, the secretary of the Audit Committee shall notify all members at least seven days prior to the meeting. The chairman shall convene and preside over the meeting. Where the chairman is unable to attend, he/she may delegate another member (an independent non-executive director) to convene and preside over the meeting.

The members of the Audit Committee shall attend the meeting in person. If a member is unable to attend the meeting in person, such member shall, by signing and submitting a letter of proxy, authorize another member of the Audit Committee to attend and express opinion at the meeting on his/her behalf. Such letter of proxy shall expressly state the scope and term of the authorization. A member may only authorize one other member as proxy to exercise voting rights on his/her behalf each time. If two or more members are authorized to exercise voting rights on his/her behalf, the authorization shall be invalid.

**Article 16** A meeting of the Audit Committee shall be held only when more than two-thirds of the members (including the members who have appointed other members in writing to attend the meeting on their behalf) are present; each member shall have one vote; resolutions made at the meeting must be passed by a majority of all members. If a member of the Audit Committee is interested in any matter being considered by the Audit Committee, such member shall refrain from the consideration of such matter. If a valid resolution cannot be reached due to abstention of any member, the relevant matter shall be considered directly by the Board of Directors.

**Article 17** Members may vote at the meetings of the Audit Committee by a show of hands or by written votes. Meetings of the Audit Committee may be convened by way of on-site meetings, teleconferences, video conferences, circulation of documents, facsimile, email and other appropriate means.

**Article 18** The Audit Committee may invite other directors, supervisors, senior management and external advisors of the Company to attend meetings as appropriate. Such persons being invited shall give explanations and elaborations on relevant matters at the request of the member(s) of the Audit Committee.



**Article 19** If necessary, the Audit Committee may engage external intermediary institutions or experts to provide it with independent professional advice for its decision-making, and the reasonable expenses arising therefrom shall be borne by the Company, provided that the Company's trade secrets are not disclosed. The Company shall provide the Audit Committee with sufficient resources to ensure that it performs its duties.

**Article 20** The convening procedures and voting methods of the meetings of the Audit Committee and the resolutions passed at the meetings shall comply with requirements under relevant laws, regulations, the Articles of Association and these terms of reference.

**Article 21** Minutes shall be kept for the meetings of the Audit Committee. The members of the Audit Committee shall explicitly, independently and fully express their opinions based on their judgments. In the case of any different opinions, such different opinions shall be stated in the minutes to be presented to the Board of Directors. The draft and the final versions of the minutes shall be sent to all members of the Audit Committee within a reasonable time after the conclusion of such meeting with the draft version to be used for the expression of opinions by the members and the final version to be used as a record. The members attending the meeting shall sign the final version of the minutes. Minutes shall be kept by the Company secretary.

**Article 22** Resolutions passed at the meetings of the Audit Committee shall be reported to the Board of Directors in writing for decision-making.

**Article 23** Members present at a meeting shall be obliged to keep all matters discussed at such meeting confidential, and shall not disclose any relevant information without authorization.

**Article 24** The Company secretary shall act as the secretary of the Audit Committee. In the absence of the secretary of the Audit Committee, the members present at the meeting of the Audit Committee shall appoint another person to act as secretary.

## **Chapter 6 Supplementary Provisions**

**Article 25** Unless otherwise specified, the terms used herein shall have the same meanings ascribed to them in the Articles of Association. These terms of reference are written in Chinese. If there is any inconsistency between the English and Chinese versions of these terms of reference, the Chinese version shall prevail.

**Article 26** In these terms of reference, the scope "above" a number shall include the number itself while the scope "more than" a number shall exclude the number itself.

**Article 27** These terms of reference have been approved by the Board of Directors and shall come into effect upon the listing of the Company's H shares on The Stock Exchange of Hong Kong Limited.

**Article 28** Any matters not covered by these terms of reference or in any event that these terms of reference contravene any laws, regulations, regulatory documents, the Listing Rules and other relevant regulatory rules of the listing place and the Articles of Association, the provisions of the aforementioned laws, regulations, regulatory documents, the Listing Rules and other relevant regulatory rules of the listing place and the Articles of Association shall prevail. These terms of reference shall be amended immediately and submitted to the Board of Directors for approval.

**Article 29** These terms of reference shall be formulated, amended and interpreted by the Board of Directors.