



丽珠医药  
LIVZON

麗珠醫藥集團股份有限公司

LIVZON PHARMACEUTICAL GROUP INC.\*

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

(Stock code: 1513)

(the "Company")

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE UNDER THE BOARD (ADOPTED ON 18 DECEMBER 2018)

### 1 Membership

- (a) The Audit Committee (hereinafter referred to as the "**Committee**") shall be appointed by the Board of Directors (hereinafter referred to as the "**Board**") from amongst the Non-Executive Directors of the Company. The members of the Committee shall be nominated by the chairman of the Board, more than half of the independent directors or one third of all directors, and shall be elected by the Board. The Committee shall consist of not less than three members who are the non-executive directors of the Company, a majority of whom should be Independent Non-Executive Directors ("**INEDs**"). At least one member must be an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "**HK Listing Rules**"). Where there are only three INEDs as members of the Board, all of them shall be appointed as members of the Committee. The constitution of the Committee shall comply with the requirements of the HK Listing Rules and the Stock Listing Rules of the Shenzhen Stock Exchange (hereinafter referred to as the "**Shenzhen Listing Rules**") from time to time.
- (b) The chairman of the Committee shall be an INED and a member of the Committee appointed by the Board, who shall be responsible for presiding over the Committee. The chairman shall be nominated by the Committee members and appointed by the Board.
- (c) A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Committee for a period of two years from the date of the person ceasing:
- (i) to be a partner of the firm; or
  - (ii) to have any financial interest in the firm,
- whichever is the later.

- (d) The term of office of the Committee members shall be equivalent to that of the Board members. Upon expiry of a term, a member may serve consecutive terms if re-elected. If any member resigns from the position of director of the Company during his/her term of office, he/she shall automatically cease to be a Committee member, and the vacancy shall be filled by the Committee in accordance with Article 1 hereto. A Committee member may not be removed without cause before the expiration of his or her term, unless the committee member is restricted from holding office according to the Company Law of the People's Republic of China, the Articles of Association or the HK Listing Rules.

## **2 Attendance at Meetings**

- (a) Unless otherwise stated herein, the meetings of the Committee shall be governed by the provisions contained in the Articles of Association for regulating the meetings and proceedings of directors, and the provisions of the relevant laws, regulations and these Rules shall be complied with.
- (b) The quorum for a meeting of the Committee shall be more than two-thirds of all its members, all of whom must be INEDs. Each member has one vote. Resolutions shall be passed by a majority of all members present.
- (c) Subject to paragraph 4 below, the Chairman of the Board, the Chief Financial Officer and the Head of Internal Audit and Compliance (hereinafter referred to as the “**Head of IAC**”) of the Company shall normally be invited to attend meetings of the Committee. A representative of the external auditors shall be invited to attend the Committee meetings where appropriate, at the Company's expense. Other staff who have specific responsibility for an area under review may also be invited to attend.
- (d) The Company Secretary shall be the secretary of the Committee (hereinafter referred to as the “**Secretary of the Committee**”) who should attend all meetings of the Committee. In the event that the Secretary of the Committee is absent, members attending the meeting can appoint other person to act as the secretary to such meeting.
- (e) Members of the Committee may participate in a meeting of the Committee in person or by means of telephone conference or similar communications equipment where live communication between persons participating in the meeting is possible and participation in a meeting pursuant to this provision shall be deemed as attending such meeting in person.

## **3 Frequency of Meetings**

The Committee shall hold its regular meetings at least twice a year. The external auditors or any members of the Committee may request an extraordinary meeting if they consider that one is necessary and upon the receipt of such request, the Secretary of the Committee shall convene such a meeting as soon as reasonably practicable and having regard to the convenience of all members with priority given to the INEDs. Notices must be given to all Committee members seven days prior to a regular meeting and five days prior to an extraordinary meeting. These deadlines for serving notices may be waived

where there is unanimous consent from all Committee members. Notices shall attach therewith the meeting proposals, and shall be delivered by facsimile, telephone, e-mail, hand delivery, mail or other means as appropriate. The meeting shall be presided by the chairman and, if he/she is unable to attend the meeting, he/she may appoint another member (who must be an INED) to preside over the meeting.

Members of the Committee who have appointed a proxy to attend and vote on his behalf shall submit the instrument of proxy to the chairman of the meeting. The latest time for such submission shall be prior to the commencement of voting at the meeting.

#### **4 Private Meetings**

The Committee shall hold separate private meeting(s) with the internal auditors and/ or the external auditors with no Executive Directors or senior management present whenever they think fit and appropriate but at least once a year.

#### **5 Committee's Resolutions**

Without prejudice to the requirements under the HK Listing Rules and/or the Shenzhen Listing Rules for holding a physical meeting of the Board or the Committee, a resolution in writing signed by all members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee and may consist of several documents in like form each signed by one or more of the members of Committee. Such resolution may be signed and circulated by fax or other electronic communications.

#### **6 Authorities**

- (a) The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee or Executive Director and such persons are directed to co-operate with any request made by the Committee.
- (b) The Committee is authorised by the Board, and at the reasonable expense of the Company, to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- (c) The Head of IAC shall report to the Committee in such form as is specified by the Committee.
- (d) The Committee shall report to the Board any suspected frauds or irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
- (e) Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report as contained in the Annual Report of the Company a statement from the Committee explaining its recommendation and also the reasons why the Board has taken a different view.
- (f) The Committee is to be provided with sufficient resources to perform its duties. Where necessary, the Committee should seek independent professional advice, at the Company's expense, to perform its responsibilities.

- (g) The Audit Committee may establish an audit working group to handle daily operations, liaisons and meeting arrangements.

## 7 General Responsibilities

- (a) The Committee is to serve as a focal point for communication between other Directors, the external auditors and the internal auditors as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.
- (b) The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (“**Group**”), and as to the adequacy of the external and internal audits.
- (c) The Committee shall fulfill other responsibilities as required by the HK Listing Rules and the Shenzhen Listing Rules from time to time.
- (d) Save as otherwise provided by the relevant laws, regulations and/or regulatory authorities, Committee members attending the meetings shall have an obligation to keep all matters discussed thereof confidential, and shall not disclose the relevant information without permission.

## 8 Duties

The main duties of the Committee shall be:

### *Relationship with the Company’s external auditors*

- (a) to be primarily responsible for making recommendations to the Board on the engagement, substitution, appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;
- (b) to consider the plan for each year’s audit submitted by the external auditors and discuss the same at a meeting if necessary;
- (c) to review and monitor the external auditors’ independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards. In this connection, the Committee shall:
  - (i) obtain from the external auditors annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff;
  - (ii) consider all relationships between the Company and the external auditors and in particular, to conduct annual review of all non-audit services performed by the external auditors and the related fee levels, and to ensure that such services do not impair the independence of the external auditors;

- (iii) communicate between the internal audit and the external auditors, and meet with the external auditors, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditors may wish to raise;
- (iv) consider the Company's policies on hiring of employees or former employees of the external auditors and monitoring the application of these policies and consider whether there has been or appears to be any impairment of the auditors' judgment or independence for the audit; and
- (v) ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee shall consider:
  - (aa) whether the skills and experience of the audit firm make it a suitable supplier of non-audit services;
  - (bb) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services;
  - (cc) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and
  - (dd) criteria for compensation of the individuals performing the audit.
- (d) to discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences;
- (e) to develop and implement policy on engaging the external auditors to supply non-audit services. For this purpose, external auditors include 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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

***Review of the Company's financial information***

- (f) to audit the financial information of the Company and its disclosures, to monitor integrity of the Company's financial statements and annual report and accounts, and half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;

- (v) compliance with accounting standards; and
- (vi) compliance with the HK Listing Rules and the Shenzhen Listing Rules and legal requirements in relation to financial reporting.
- (g) regarding (f) above:
  - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's external auditors; and
  - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts and 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;

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

- (h) to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review at least annually the effectiveness of the Company's and its subsidiaries' risk management and internal control systems (the review should cover all material controls, including financial, operational and compliance controls), to supervise the Company's internal audit system and its implementation, to review the Company's internal control mechanisms;
- (i) to discuss the risk management and internal control system 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;
- (j) 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;
- (k) 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;
- (l) to review the Group's financial and accounting policies and practices;
- (m) to discuss any problems and reservations arising from the interim and final audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary) and to assist in the resolution of any disagreements or difference between the external auditors and management;
- (n) to review the external auditors' management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (o) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;

- (p) to report to the Board on the above matters;
- (q) 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; and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (r) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (s) to establish a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company;
- (t) to consider other topics, as defined by the Board; and
- (u) ensure the chairman of the Committee, or in the absence of the chairman, another member of the Committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meetings of the Company.

## **9 Reporting Procedures**

- (a) The Committee shall report to the Board the resolutions passed and voting results in the meeting in writing. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report the findings and recommendations of the Committee to the Board unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).
- (b) The audit working group of the Committee shall carry out preliminary preparation works to facilitate the Committee's decision making and provide information in writing to the Committee concerning the following matters, which may include but are not limited to:
  - (i) relevant financial reports of the Company;
  - (ii) work reports of the internal and external auditing bodies;
  - (iii) external auditing contract and relevant work reports;
  - (iv) the Company's public disclosures;
  - (v) the Company's internal control system and the relevant work reports on its implementation;
  - (vi) agreements on the Company's connected transactions;
  - (vii) audit reports for major connected transactions of the Company;
  - (viii) feedback information about the investigation on the Company's connected parties; and
  - (ix) other relevant matters.

- (c) The reports provided by the audit working group of the Committee shall be evaluated at the meetings of the Committee and the relevant written resolutions or recommendations shall be reported to the Board for discussion, which may include but not limited to:
  - (i) the comments on the works carried out by the external auditors, as well as the engagement and replacement of the external auditors;
  - (ii) whether the internal audit system of the Company is effectively implemented and whether the financial reports of the Company give the full and accurate view;
  - (iii) whether information, such as financial reports, the Company's public disclosure is objective and true; and whether the major connected transactions of the Company complies with relevant laws and regulations;
  - (iv) the comments on the works of the Company's financial and audit departments, including the personnel in charge; and
  - (v) other relevant matters.
- (d) Full minutes of Committee meetings shall be kept by the Secretary of the Committee. Draft and final versions of minutes of the meetings shall be sent to all members within a reasonable time after the meeting. The drafts shall be sent to the members for their comments, and the final version shall be sent to the members for their record.
- (e) The Secretary of the Committee shall circulate copies of the minutes of the meetings of the Committee to all members of the Board for reference.

## **10 Availability and update of the terms of reference**

These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. the HK Listing Rules and the Shenzhen Listing Rules) in Hong Kong and the People's Republic of China. These terms of reference shall be made available to the public through publication on the websites of The Stock Exchange of Hong Kong Limited and the Company.

*In case of discrepancy between the official Chinese version and the English translated version of these terms of reference, the Chinese version shall prevail.*

*\* For identification purpose only*