

**SHANGHAI HAOHAI BIOLOGICAL TECHNOLOGY CO., LTD.**  
(the “**Company**”)

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE**  
(adopted by the board of the Company on April 6, 2015)

**Chapter I. General Principles**

Article 1. Pursuant to the *Company Law of the People’s Republic of China* (the “**Company Law**”), *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* (the “**Listing Rules**”), *articles of association of Shanghai Haohai Biological Technology Co., Ltd.* (“**Articles of Association**”) and such other relevant regulations, the board of directors of the Company (the “**Board**”) has decided to set up an audit committee under the Board (the “**Committee**”) and hereby formulate these terms of reference, in an effort to further strengthen the decision-making function of the Board, realize effective supervision of the Company’s financial affairs and various business activities, so as to achieve pre-audit and audit in a professional manner and ensure effective supervision of the management by the Board and further improve the Company’s corporate governance.

Article 2. Resolutions adopted by the Committee shall comply with the Articles of Association, these terms of reference and such other provisions specified in relevant laws, regulations and normative documents.

Article 3. The Committee shall perform its duties pursuant to the Articles of Association and within the scope set forth in these terms of reference, and shall act independently without any interference from other departments of the Company.

**Chapter II. Composition**

Article 4. The Committee shall comprise five (5) non-executive directors, a majority of whom shall be independent non-executive directors. At least one (1) of the Committee members shall be an independent non-executive director with accounting expertise, that is, with appropriate professional qualifications or with appropriate accounting or related financial management expertise.

Article 5. Members of the Committee shall be nominated by the chairman of the Board, or more than half ( $\frac{1}{2}$ ) of independent non-executive directors, or more than one-third ( $\frac{1}{3}$ ) of all the directors, and shall be elected by the Board.

Article 6. The Committee shall have one (1) chairman (the “**Chairman**”), who shall be an independent non-executive director and shall preside the work of the Committee. The Chairman shall be elected amongst the independent non-executive directors by the Board.

Article 7. The Chairman shall convene and chair meetings of the Committee. Where the Chairman is incapable or unable to perform his/her duties, he/she shall appoint another Committee member to perform the duties on his/her behalf. Where the Chairman neither performs his/her duties nor appoints another member to perform duties on his/her behalf, any other member may report such situation to the Board, and the Board shall appoint another member to perform the duties of the Chairman.

Article 8. All Committee members shall be directors of the Company, and his/her term of office as a Committee member shall be the same as his/her term of office as a director, such term of office may be renewed upon re-election. The Committee members shall not be dismissed without cause unless any circumstances specified in Listing Rules, Company Law, Articles of Association or these terms of reference which prevent a member from holding his/her position shall arise. Where any member resigns or no longer holds the office of director of the Company for other reasons during his/her term of office, the Committee membership of such member shall be revoked automatically, and the Board shall supplement a new member pursuant to the Articles of Association and these terms of reference.

Article 9. In the event that the number of Committee member shall fall below two-thirds ( $\frac{2}{3}$ ) of the required number, the Board shall promptly supplement new candidates. The Committee shall suspend performance of its duties pursuant to these terms of reference until the number of Committee member is restore back to two-thirds ( $\frac{2}{3}$ ) of the required number.

### **Chapter III. Duties and Authorizations**

Article 10. Primary duties of the Committee include:

- (1) to be responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and to handle its resignation or dismissal;
- (2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences. In this regard, the Committee shall:
  - (i) obtain from external auditors annually, information about policies and procedures for maintaining independence and monitoring compliance (including those for rotation of partners and staff); and
  - (ii) review annually, all non-audit services provided and fees charged by external auditors, and ensure such services will not impair independence of external auditors.
- (3) to develop and implement policies on engaging external auditors to supply non-audit services;
- (4) to monitor integrity of the Company's financial statements, annual report and accounts and half-year report, 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 involved;
  - (iii) significant adjustments resulting from audit;

- (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with Listing Rules and other legal requirements in relation to financial reporting;
- (5) regarding (4) above:
- (i) members of the Committee should liaise with the Board and members of the senior management, and the Committee must meet, at least twice a year, with the Company's 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, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors oversee the Company's financial reporting system and internal control procedures;
- (6) to review the Company's financial controls, internal control and risk management systems;
- (7) to discuss the internal control system with management to ensure that management has performed its duty in establishing an effective internal control system, the discussion of which should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function, adequacy and effectiveness of its anti-bribery and anti-fraud policies, as well as compliance with relevant laws, regulations and rules;
- (8) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (9) 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;

- (10) to review the group's financial and accounting policies and practices;
- (11) 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;
- (12) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (13) to report to the Board on the matters set forth in these terms of reference on a timely basis;
- (14) to consider other topics, as defined by the Board;
- (15) to review arrangements on which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (16) to act as the key representative for overseeing the Company's relations with the external auditor; and
- (17) to review the continuing connected transactions annually.

Article 11. The Committee shall report to the Board, and the proposals submitted by the Committee shall be subject to the review and decision by the board.

Article 12. The Committee shall also cooperate with the supervisory committee in its supervision of audit work.

Article 13. Relevant departments of the Company shall cooperate with the Committee in respect of the performance of its duties, and if necessary, the Committee may appoint intermediaries to seek professional advice, and the expenses so incurred shall be borne by the Company.

## **Chapter IV. Notice on Convening of Meetings**

Article 14. Meetings of the Committee include regular meetings and interim meetings.

The Committee shall hold at least two (2) regular meeting in each financial year, which shall be held not later than three (3) months after the end of the preceding financial year and two (2) months after the end of the first six (6) months in each financial year.

Either the Board, Chairman of the Committee or more than two (2) (at least two) Committee members acting jointly, may request to convene interim meetings.

Article 15. The Committee's regular meetings shall be held through physical attendance. Interim meetings may be held either through physical attendance or through non-physical attendance in which voting may be conducted through remote communication.

Unless otherwise specified in the Articles of Association or these terms of reference, as long as the members have ample opportunity to express their opinions, resolutions of interim meetings may be adopted through facsimile transmission and signed by the attending members.

Where voting is conducted through remote communication, a Committee member's signature on a resolution shall be considered as attendance at a meeting and consent to the resolution.

Article 16. Notice of at least five (5) (excluding the date of the meeting) days should be given for a regular meeting, and notice of at least three (3) days (excluding the date of the meeting) should be given for an interim meeting.

Article 17. Secretary to the Board shall be responsible for sending notices for Committee meetings pursuant to the requirement prescribed in the preceding article.

Article 18. Notice for a Committee meeting shall include, at least the following:

- (1) time and place of the meeting;
- (2) duration of the meeting;

- (3) topics to be discussed in the meeting;
- (4) contact person of the meeting and his/her contact information; and
- (5) date of notice of the meeting.

Article 19. Notice sent by the secretary to the Board shall attach complete meeting agenda.

Article 20. Written notices shall be given for the Committee's regular meetings, and other types of notices such as by telephone, email or other instant communication methods may be used for interim meetings.

Where telephone, email or other instant communication methods are used, the recipient shall be deemed to have received the notice if he/she fails to raise any written objection within two (2) days of issue of the notice.

#### **Chapter V. Rules of Order and Voting Procedures**

Article 21. The quorum of a Committee meeting shall be more than two-thirds (2/3) of the members. Other directors of the Company may attend a Committee meeting but a director who is not a Committee member is not eligible to vote on any motion of the Committee.

Article 22. A Committee member may attend a meeting either in person or authorize another Committee member to attend the meeting on his/her behalf and exercise his/her voting right. Each Committee member is allowed to authorize only one (1) member to vote on his/her behalf, and the proxy shall be invalid in the event that two or more than two (2) persons are authorized to vote on his/her behalf.

Article 23. Where a Committee member authorizes another Committee member to attend the meeting and exercise the voting right, he/she shall deliver a power of attorney to the chairman of the meeting not later than the commencement of the meeting.

Article 24. The power of attorney shall include, at least the following:

- (1) name of the principal;

- (2) name of the proxy;
- (3) scope of authorization;
- (4) voting instructions in relation to the meeting topics (for, against or abstain) and, in absence of instruction, whether the proxy may vote on his/her own will;
- (5) term of authorization; and
- (6) date of signing the power of attorney.

The power of attorney shall be signed by both principal and proxy.

Article 25. A Committee member who neither attend nor authorize other Committee members to attend on his/her behalf shall be regarded as absent from the meeting.

A Committee member who does not attend Committee meetings for two (2) consecutive times shall be regarded as unable to perform his/her duties properly and the Board may dismiss such member.

Article 26. Any resolution made by the Committee shall be adopted only after it has been approved by over half of all Committee members (inclusive of Committee members who are absent from the meeting).

Each Committee member shall have one (1) vote.

Article 27. After announcing the commencement of the meeting, the chairman should review topics set forth in the agenda in the order of sequence.

Article 28. The Committee may review any meeting topics through free discussion, provided the rules of order are maintained, and the speaker shall not talk in a manner that involve personal attack or use other abusive or threatening language.

The chairman has the right to decide length of discussion.



Article 29. The Committee shall allow integrated review of topics and voting according to order of sequence, this is, after all the topics have been reviewed by all attending members, voting shall be conducted according to order of sequence of topic set forth in the agenda.

Article 30. Where the Committee considers necessary, it may call such other persons who are relevant to the subject topics to attend the meeting, in an attempt to allow them to introduce the topic or express opinion, provided that non-Committee member are not eligible to vote.

Article 31. Members attending a Committee meeting shall, in a conscientious and responsible manner, review the subject topics and fully express their opinions. A member shall be accountable for the vote cast under his/her own will.

Article 32. Vote-by-ballot shall be adopted in both regular and interim meetings of the Committee, and the voting options include for, against or abstain. Each member attending the meeting shall only choose for, against or abstain, multiple choices or failure to choose shall be considered abstention.

Where a Committee meeting would like to vote through facsimile transmission, the voting method shall be voting by signature.

The chairman shall count the votes in respect of each topic and announce the result on the spot, the result shall be recorded in the meeting minutes by the person who recorded the minutes.

Article 33. Minutes shall be kept for Committee meetings by secretary to the Board or any staff of investment development department designated by the secretary to the Board.

## **Chapter VI. Meeting Resolutions and Minutes**

Article 34. After having prescribed effective votes, a motion shall be passed as a Committee resolution upon announcement by the chairman of the meeting.

Resolutions of the Committee shall come into force after being signed by the attending members, and no amendment or modification shall be made to any Committee resolutions that have come into force unless relevant legal procedures required by laws, regulations, Articles of Association and these terms of reference have been carried out.

Article 35. A Committee member or the secretary to the Board shall, no later than the day following the date when a resolution comes into force, report to the Board the relevant resolutions passed in the meeting.

Resolutions passed by the Committee shall be kept by the Company in written form as part of Company archive, and shall be kept for not fewer than ten (10) years during the existence of the Company.

Article 36. If a resolution passed by the Committee violates any laws, regulations, Listing Rules or Articles of Association and thereby causing significant losses to the Company, the members involved in passing the resolution shall bear joint and several liability to the Company. However, a member may be exempted if it is proved that he/she expressed disagreement during voting and the disagreement has been recorded in the minutes.

Article 37. Written minutes shall be kept for Committee meetings, and the member attending the meeting and the staff responsible for recording the minutes shall sign on the minutes. A member attending the meeting has the right to request to record explanations on statements made in the meeting.

Committee meeting minutes shall be kept by the Company in written form as part of Company archive, and shall be kept for not fewer than ten (10) years during the existence of the Company.

Article 38. Minutes for any Committee meeting shall include, at least, the following:

- (1) date and place of, and the name of the person convening the meeting;
- (2) names of attendees, and specific notes shall be made in the case of attendance by proxy;
- (3) meeting agenda;
- (4) summary of statement made by members;
- (5) voting method and the result thereof in respect to each resolution or topic (number of for, against or abstain votes shall be recorded); and

(6) other matters that shall be described and kept in minutes.

Article 39. Committee members shall maintain confidentiality of any information they learn about the Company before the same are made public.

## **Chapter VII. Miscellaneous**

Article 40. Any issues not covered in these terms of reference shall be handled pursuant to relevant State laws, administrative regulations, departmental rules, Listing Rules and the Articles of Association. In the event that these terms of reference are contrary to any subsequent State laws, administrative regulations, departmental rules, Listing Rules and/or amended Articles of Association, the relevant State laws, administrative regulations, departmental rules, Listing Rules and/or amended Articles of Association shall prevail, and these terms of reference shall be amended promptly and submitted to Board for review and approval.

Article 41. Terms: “more than”, “not fewer than” or “within” used herein are inclusive terms, and the terms “over” or “fall below” herein are exclusive terms.

Article 42. These terms of reference shall be implemented from the date of Board approval.

Article 43. The Board shall be responsible for interpretation of these terms of reference.

Shanghai Haohai Biological Technology Co., Ltd