



上海復旦張江生物醫藥股份有限公司

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*

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

(Stock code:1349)

Principles of the Audit Committee

(Passed by the Board of Directors on 30 December 2015)

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1. Composition of the Audit Committee

- 1.1 The Audit Committee is a body specifically set up by the board of directors (the "Board").
- 1.2 The Audit Committee must comprise a minimum of 3 independent non-executive directors and/or non-executive directors and over half of the audit committee members must be independent non-executive directors.
- 1.3 The Audit Committee shall have one chairman who must be an independent non-executive director and will lead the Audit Committee and preside over the meetings of the Audit Committee. A deputy chairman may be appointed where necessary and shall preside over the meetings of the Audit Committee in the absence of the chairman.
- 1.4 There must be at least 1 independent non-executive director in the Audit Committee who must have appropriate professional qualifications or accounting or related financial management expertise, i.e. having experience as a public accountant or auditor or as a chief financial officer, controller or principal accounting officer of a public company, or through performance of similar functions, experience with internal controls and in preparing or auditing comparable financial statements or experience reviewing or analyzing audited financial statements of public companies.
- 1.5 The term of office of members of the Audit Committee shall be in congruence with the term of the Board.
- 1.6 A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of 1 year from the date of his ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.

2. Principles for the Audit Committee

2.1 Relationship with the Company's auditors

2.1.1 to be primarily responsible for making recommendation 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 any questions of resignation or dismissal of that auditor;

2.1.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

2.1.3 to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall 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 having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

2.1.4 to act as the key representative for the communications between the Company and the external auditor and be responsible for monitoring their relationship.

2.2 Review of financial information of the Company

2.2.1 to monitor integrity of the Company's financial statements, annual reports and accounts and half-year reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) (the "Listing Rules") and other legal requirements in relation to financial reporting.

2.2.2 Regarding 2.2.1 above:

- (i) members of the Audit Committee should liaise with the Board and senior management of the Company and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
- (ii) the Audit 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.

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

- 2.3.1 to review the Company's financial controls, and to review the Company's risk management and internal control systems;
- 2.3.2 to discuss with the management the risk management and internal control system and ensure that management has discharged 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;
- 2.3.3 to consider any findings of major investigations on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 2.3.4 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 the effectiveness of the internal audit function;
- 2.3.5 to ensure that proper arrangements are in place by which employees of the Company may, in confidence, report or question possible improprieties in financial reporting, risk management, internal control or other matters and to review such arrangements from time to time for the fair and independent investigation of such matters and for appropriate follow-up action.
- 2.3.6 to review the group's financial and accounting policies and practices;
- 2.3.7 to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- 2.3.8 to review, at least annually, the effectiveness of the Company's risk management and internal control systems;
- 2.3.9 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 2.3.10 to report to the Board on the matters set out in these Principles;
- 2.3.11 to consider other topics, as defined by the Board.
- 2.4 to comply with the applicable requirements under the Listing Rules.

3. Guidance for discharge of duties by the Audit Committee

- 3.1 The Audit Committee may establish the following procedures to review and monitor the independence of external auditors:
- (a) consider all relationships between the Company and the auditor (including the provision of non-audit services);
- (b) seek from the auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding rotation of audit partners

and staff; and

- (c) meet with the auditor, 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 auditor may wish to raise.

3.2 The Audit Committee may agree with the Board the Company's policies relating to the hiring of the employees or former employees of the external auditors and monitor the application of such policies. The Audit Committee should then be in a position to consider whether in the light of this there has been any impairment or appearance of impairment, of the auditor's judgment or independence in respect of the audit.

3.3 The Audit Committee would normally be expected to ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the Audit Committee may consider:-

- (a) whether the skills and experience of the auditor make it a suitable supplier of the non-audit services;
- (b) whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the auditor;
- (c) the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor; and
- (d) the criteria which govern the compensation of the individuals performing the audit.

3.4 The Audit Committee may oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Audit Committee on the effectiveness of these systems. The Audit Committee's annual review should, in particular, consider:

- (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the

external environment;

- (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
- (c) the extent and frequency of communication of monitoring results to the Audit Committee which enables it to assess control of the issuer and the effectiveness of risk management;
- (d) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- (e) the effectiveness of the Company's processes for financial reporting and the Listing Rules compliance.

3.5 The Audit Committee may refer to the following to further guide its duties:

- (a) Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor's Independence issued by the Technical Committee under The International Organization of Securities Commissions in October 2002; and
- (b) Guidelines on Effective Operations of the Audit Committee issued by Hong Kong Institute of Certified Public Accountants in February 2002; and
- (c) Corporate Governance Code and Corporate Governance of Governance Report in Appendix 14 of the Listing Rules.

4. Rules of Procedure for the Audit Committee

- 4.1 The Audit Committee will meet, discuss and determine related matters according to the needs of discharge of the above duties.
- 4.2 The holding of a meeting of the Audit Committee shall be subject to the attendance of more than two-thirds of all the members of the Audit Committee. The resolutions made by the

meeting shall be subject to approval by over half of all members of the Audit Committee.

- 4.3 The Audit Committee may invite directors, supervisors, and other senior management of the Company to attend its meeting as non-voting delegates as necessary.
- 4.4 Minutes should be kept for the meetings of the Audit Committee and signed by members of committee attending the meetings. The draft and final versions of minutes of the meetings shall be circulated to all members for their comment and records respectively within a reasonable time after the meetings. Full minutes of the meetings should be kept by the secretary of the Company.
- 4.5 At the invitation of the chairman of the Board, the chairman of the Audit Committee or in the absence of the chairman, another member of the Audit Committee or his/her authorized representative should be available to answer questions at the annual general meeting of the Company.
- 4.6 The Audit Committee shall report its decisions or recommendations to the Board, unless there are legal or regulatory restrictions on their ability to do so.
- 4.7 The Audit Committee should be provided with sufficient resources to perform its duties.
- 4.8 These Principles, explaining the role of the Audit Committee and the authority delegated to it by the Board, shall be made available to the public, and its Principles shall be published on the Company's and the Stock Exchange's websites in accordance with the Listing Rules.

5. Others

- 5.1 These Principles shall come into force on the date when approved by the Board.
- 5.2 These Principles shall be revised from time to time and implemented pursuant to the relevant laws and regulations and the Listing Rules in force if these Principles are not timely amended.
- 5.3 If there is any inconsistency between the English and Chinese versions of these Principles, the Chinese version shall prevail.