



Shandong Boan Biotechnology Co., Ltd.

山东博安生物技术股份有限公司

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

(Stock Code: 6955)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD

Chapter 1 General Provisions

Article 1 Pursuant to the Company Law of the People's Republic of China, the Articles of Association of Shandong Boan Biotechnology Co., Ltd. (the "**Articles of Association**"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and other relevant regulations, Shandong Boan Biotechnology Co., Ltd. (the "**Company**") hereby formulated these terms of reference, in an effort to optimize the meeting and decision-making procedures of the audit committee (the "**Audit Committee**") of the board of directors (the "**Board**") of the Company and ensure smooth progression of various types of work of the Audit Committee.

Article 2 The Audit Committee is a specific committee set up by the Board. Its main responsibilities are to supervise and inspect the internal and external audits and the internal control system of the Company.

Members of the Audit Committee shall ensure that they have sufficient time and efforts to discharge their duties in the Audit Committee, be diligent and responsible, earnestly and effectively supervise the external audit of the Company, guide the internal audit of the Company, and procure the Company to establish an effective internal control system and provide true, accurate and complete financial reports.

Article 3 The Company shall provide necessary working conditions for the Audit Committee and designate specific personnel or entities to deal with daily work, including liaison, organization of committee meetings, preparation of materials and documentation management, of the Audit Committee. The management and the relevant departments of the Company shall cooperate with the Audit Committee when it performs its duties.

Chapter 2 Composition

Article 4 The Audit Committee shall comprise at least three members, all of whom shall be non-executive directors and a majority of whom shall be independent non-executive directors, with at least one independent non-executive director possessing the appropriate professional qualifications or accounting or related financial management expertise.

Article 5 Members of the Audit Committee shall be nominated by the chairman/ chairlady of the Board, more than half of the independent non-executive directors or one-third of all directors, and shall be elected by the Board.

Article 6 The Board shall evaluate the independence and performance of the members of the Audit Committee on a regular basis, and replace the member who is not suitable to remain in the position when necessary. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of two years from the date he or she ceases (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.

Article 7 The Audit Committee shall have a chairperson (the "**chairperson**") to be served by an independent non-executive director to take charge of the work of the Audit Committee.

Article 8 The term of office of the Audit Committee shall be the same as that of the Board. Each member of the Audit Committee shall be eligible for re-election upon expiry of his or her term of office. During such period, if any member of the Audit Committee member ceases to be a director of the Company, his or her membership in the Audit Committee shall lapse automatically, and the vacancy shall be filled by the person elected by the Board according to these terms.

Chapter 3 Duties and Authorities

Article 9 The Audit Committee shall have the following duties and authorities:

- (I) to supervise and evaluate the work of the external auditor;
- (II) to guide the internal audit work;
- (III) to review the Company's financial report and express opinions thereon;
- (IV) to evaluate the effectiveness of internal control;
- (V) to coordinate the communication between the management, internal audit department and relevant departments and the external auditor;
- (VI) other matters as authorized by the Board of the Company and as required with relevant laws and regulations (including the Listing Rules) from time to time.

Article 10 The responsibilities of the Audit Committee for monitoring and evaluating the work of the external auditor shall at least include the following:

- (I) to be primarily 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 handle any issues related to its resignation or dismissal;

- (II) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and to discuss with the external 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" shall include any entity that is under common control, ownership or management with the auditing firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the auditing firm nationally or internationally; and
- (IV) to report to the Board on any matters where action or improvement is needed, identify the issues and make recommendations thereon.

Article 11

The responsibilities of the Audit Committee for overseeing the Company's financial reporting system, risk management and internal control systems shall at least include the following:

- (I) to review the Company's financial controls, and unless expressly addressed by a separate risk committee under the Board, or by the Board itself, the risk management and internal control systems of the Company;
- (II) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to develop effective systems. This discussion shall include the adequacy of resources, staff qualifications and experience, training programs and budget in respect of the Company's accounting and financial reporting functions;
- (III) 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;
- (IV) to ensure coordination 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;
- (V) to review the Company's financial and accounting policies and practices;

- (VI) to review the external auditor's management letter, any material queries raised by the external auditor to management about the accounting records, financial accounts or risk management and control systems and management's response;
- (VII) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (VIII) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (IX) to review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, 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 by the Company;
- (X) to report to the Board on the matters in the code provisions under Appendix 14 of the Listing Rules; and
- (XI) where the Board disagrees with the Audit Committee's opinion on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

Article 12

The responsibilities of the Audit Committee for reviewing the Company's financial reports and expressing opinions thereon shall at least include the following:

- (I) to monitor the integrity of the Company's financial statements and its annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these statements and reports before submission to the Board, the Audit Committee should focus particularly on:
 - (a) any changes in accounting policies and practices;
 - (b) areas involving significant judgements;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and

- (f) compliance with the Listing Rules and legal requirements in relation to financial reporting; and
- (II) Regarding item (I) above:
 - (a) members of the Audit Committee shall liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's external auditor; and
 - (b) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and it shall 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.

Article 13 The responsibilities of the Audit Committee for performing the Company's corporate governance function shall at least include the following:

- (I) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (II) to review and monitor the training and continuous professional development of directors and senior management of the Company;
- (III) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (IV) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and
- (V) to review the Company's compliance with the code provisions and disclosure in the Corporate Governance Report.

Article 14 The Audit Committee should meet, at least twice a year, with the Company's auditors without the attendance of any executive directors (unless invited by the Audit Committee). The company secretary may attend the meeting as an observer.

Article 15 The internal audit department of the Company must report to the Audit Committee. Various audit reports and the plan and situation of rectification of audit issues submitted to the management by the internal audit department shall be submitted to the Audit Committee at the same time.

Article 16 Where the Company intends to appoint or replace the external auditor, the Board may consider the relevant proposal only after the Audit Committee has formed its review opinion and presented its recommendations to the Board.

Article 17 The Audit Committee shall be accountable to the Board. The Audit Committee shall submit its proposals to the Board for consideration and decision. The Audit Committee shall coordinate with the audit activities undertaken by supervisors of the Supervisory Committee.

Chapter 4 Decision-making Process

Article 18 The audit department or relevant responsible department (the same below) shall be responsible for the preliminary preparatory work for the decision-making process of the Audit Committee and providing the following information of the Company:

- (I) financial reports of the Company;
- (II) work reports of internal and external auditors;
- (III) external audit contracts and relevant work reports;
- (IV) public disclosure of information made by the Company;
- (V) audit reports on the material connected transactions of the Company;
- (VI) other relevant matters.

Article 19 The Audit Committee shall convene meetings to evaluate reports provided by the audit department and submit relevant written resolutions to the Board for discussion:

- (I) work appraisal on the external auditor, and the engagement and replacement of the external auditor;
- (II) report on whether the internal audit system of the Company has been effectively implemented and whether the financial reports of the Company are complete and accurate;
- (III) report on whether information such as the financial reports disclosed publicly by the Company is objective and accurate, and whether the material connected transactions of the Company comply with relevant laws and regulations;
- (IV) other relevant matters.

Chapter 5 Rules of Procedures

- Article 20** The Audit Committee may hold regular and extraordinary meetings. At least two regular meetings shall be held semi-annually every year. An extraordinary meeting may be convened when it is proposed by two or more members of the Audit Committee or when the chairperson of the Audit Committee deems it necessary. A notice shall be given to all members three days before the date of a meeting. The meeting shall be presided over by the chairperson of the Audit Committee, and in case the chairperson is unable to attend, he or she may appoint another member of the Audit Committee (the member should be an independent non-executive director) to preside over the meeting on his or her behalf. Such notice may be waived with the unanimous consent of all members of the Audit Committee. The external auditor of the Company may request to convene a meeting if it considers necessary.
- Article 21** The quorum of a meeting of the Audit Committee shall be not less than two-thirds of the members. Each member shall have one vote. A resolution of the meeting must be passed by more than half of all the members of the Audit Committee. If a valid consideration opinion cannot be reached due to abstention of any members of the Audit Committee, such matter shall be directly considered by the Board.
- Article 22** A meeting can be attended in person or via telephone or video conferencing. Members of the Audit Committee can attend the meeting via telephone or any similar communication device (all persons attending such meeting should be able to hear from such member via such communication device). Resolutions of the Audit Committee, if to be made at a meeting, shall be passed by more than half of its members present at such meeting.
- Article 23** The resolutions passed and signed by all members of Audit Committee are also valid, and their validity shall be the same as any resolution passed at a meeting duly held by the Audit Committee.
- Article 24** If a member of the Audit Committee is interested in any matter being considered at the meeting, such member shall refrain from the consideration of such matter. Members of the Audit Committee shall attend the meeting in person and explicitly express their opinions on the matters for consideration. Any member who is unable to attend the meeting in person for any reasons may submit a power of attorney signed by him or her to appoint another member to attend the meeting and express opinions on his or her behalf. The power of attorney shall expressly state the scope and duration of the authorization. Each member cannot be appointed by more than one member at the same time. A member who is an independent non-executive director and is unable to attend the meeting in person for any reasons shall appoint another member who is also an independent non-executive director to attend the meeting on his or her behalf.

- Article 25** The Audit Committee may invite representatives of the external auditor, supervisors, internal audit staffs, financial staffs, legal advisors and other relevant personnel of the Company to attend its meetings if necessary.
- Article 26** The Audit Committee may, if necessary, engage an intermediary to provide professional advice on its decision-making at the cost of the Company.
- Article 27** The procedures for convening of a meeting of the Audit Committee, its voting methods and resolutions to be passed at such meeting must comply with the provisions of relevant laws, regulations, the Listing Rules, the Articles of Association and these terms.
- Article 28** The Audit Committee shall keep minutes of the meetings. Members present at the meetings and other persons shall sign the minutes of the meetings that shall be kept by the secretary of the Board of the Company.
- Article 29** Resolutions passed and voting results at a meeting of the Audit Committee shall be reported in writing to the Board of the Company.
- Article 30** Members of the Audit Committee present at a meeting shall keep confidential all matters discussed at the meeting and shall not disclose such information without authorization.

Chapter 6 Supplementary Provisions

- Article 31** These terms of reference shall come into effective and be implemented upon the initial public offering of the overseas-listed foreign shares of the Company and from the date of its listing and trading on The Stock Exchange of Hong Kong Limited. The Terms of Reference of the Audit Committee of the Board of the Company that are currently in force shall automatically lapse from the effective date of these terms of reference.
- Article 32** In case of any inconsistency with the Chinese version of these terms, the Chinese version shall prevail.
- Article 33** For any matters not covered in these terms of reference, the relevant laws and regulations, the Listing Rules, other requirements of the Hong Kong securities regulatory authority, and the relevant provisions of the Articles of Association shall apply. If the relevant provisions of these terms contravene with the laws and regulations, the Listing Rules, other requirements of the Hong Kong securities regulatory authority and the Articles of Association as enacted or amended in the future, such relevant laws and regulations, the Listing Rules, other requirements of the Hong Kong securities regulatory authority, and the existing or revised Articles of Association shall prevail.
- Article 34** The power of interpretation of these terms shall be vested in the Board of the Company.