

# **TYK Medicines, Inc**

## **TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

### **Chapter 1 General Provisions**

**Article 1** In order to enhance the decision-making function of the board of directors (the “**Board**”), perform pre-audit and professional audit, ensure effective supervision over the senior management by the Board and improve the corporate governance structure, the Company has hereby established the audit committee of the Board (the “**Audit Committee**” or the “**Committee**”) and formulated the Terms of Reference in accordance with the relevant regulations of the Company Law of the People’s Republic of China (hereinafter referred to as the “**Company Law**”), the Securities Law of the People’s Republic of China, the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “**Hong Kong Listing Rules**”) and other relevant laws, administrative regulations, departmental rules, regulatory documents and the Articles of Association of TYK Medicines, Inc (hereinafter referred to as the “**Articles of Association**”).

**Article 2** The Audit Committee of the Board is a dedicated body established by the Board to be primarily responsible for the communication, supervision and checking in relation to the internal and external audits of the Company. The Audit Committee of the Board shall be accountable to and shall report to the Board (including report to the Board in respect of matters set out in the Corporate Governance Code under Appendix C1 of the Hong Kong Listing Rules).

### **Chapter 2 Composition**

**Article 3** The Audit Committee shall consist of at least three directors, all of whom shall be non-executive directors, with a majority of independent non-executive directors, and the chairman of the Committee (the “convener (chairman)”) must also be an accounting professional among the independent non-executive directors. At least one member shall be an independent non-executive director with appropriate professional qualifications or appropriate accounting or relevant financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules. All members of the Audit Committee shall have expertise and business experience to perform the duties of the Audit Committee.

The former partner of an external audit firm(s) currently responsible for auditing the accounts of the Company shall not be a member of the Audit Committee of the Company within two years from the following dates (whichever is later): (i) the date on which he ceased to be a partner of the audit firm; or (ii) the date on which he ceased to enjoy the financial benefits of the audit firm.

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

**Article 5** The Audit Committee shall have a chairman, who shall be an accounting professional among the independent non-executive directors and is responsible for chairing the Audit Committee. The chairman shall be appointed by the Board from the members of the Audit Committee.

The chairman shall preside over the work of the Committee, convene and chair the Committee meetings. The chairman, in case of failure or inability to perform his/her duties, shall designate a member of the Committee, who serves as an independent non-executive director, to act on his/her behalf. If the chairman neither performs his/her duties nor designates other members to act on his/her behalf, any member shall report relevant information to the Board of the Company, and the Chairman of the Company shall designate a member of the Committee, who serves as an independent non-executive director, to act on his/her behalf.

The chairman shall attend the annual shareholders' general meetings of the Company and answer shareholders' questions on the activities and responsibilities of the Audit Committee. If the chairman is unable to attend the annual shareholders' general meeting of the Company, he shall arrange for another member of the Audit Committee, who serves as an independent non-executive director, to attend the meeting. Such person shall be prepared to answer shareholders' questions about the work of the Audit Committee at the annual shareholders' general meetings.

**Article 6** The term of office of the Audit Committee shall be identical to that of the Board. A member may be re-elected upon the expiration of his/her term of office. A member of the Audit Committee shall not be removed without cause prior to the expiration of his/her term of office unless he/she is prohibited from holding office under the Company Law, the Hong Kong Listing Rules, the Articles of Association or the Terms of Reference.

If any member ceases to be a director of the Company during his/her term of office, he/she shall ipso facto and immediately cease to hold the position of the member of the Audit Committee. The member of the Audit Committee may resign before the expiration of the term of his/her office, and shall submit a written resignation report to the Board, which cannot take effect unless approved by the Board. Additionally, the original members shall perform related duties in accordance with the Terms of Reference before the by-elected members take office.

**Article 7** The company secretary of the Company shall act as the secretary of the Audit Committee; the Audit Committee may, from time to time, appoint any other person with appropriate qualifications and experience as the secretary of the Audit Committee.

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

**Article 8** The main duties and authorities of the Audit Committee include:

- (1) to propose the appointment and replacement of, and supervise and evaluate external auditors;
- (2) to provide guidance on internal audit work, and supervise the Company's internal audit system and its implementation;
- (3) to coordinate the communication between the management, internal audit department and related departments and external auditors;

- (4) to review and express an opinion on the financial reports of the Company, and review the financial information of the Company and its disclosure;
- (5) to review the Company's internal control system and assess the effectiveness of internal control;
- (6) to review the Company's matters relating to the appointment or dismissal of the financial officer, and submit professional opinions to the Board for consideration;
- (7) to exercise the powers of the supervisory committee as stipulated in the Company Law;
- (8) to deal with other matters as required by laws, administrative regulations, rules, securities regulatory authorities, prescribed in the Articles of Association and authorised by the Board of the Company.

**Article 9** The Audit Committee shall be accountable to the Board and submit its proposals to the Board for review and approval.

**Article 10** The Audit Committee shall be responsible for review of the Company's financial information and disclosure thereof, supervision and evaluation of internal and external audit and internal control. The following matters shall, upon consent by more than half of all the members of the Audit Committee, be submitted to the Board for consideration:

- (1) disclosure of financial information in financial accounting reports and periodic reports;
- (2) recommend the appointment or dismissal of accounting firm which undertakes audit engagement of the listed company;
- (3) appointment or dismissal of financial officer of the listed company;
- (4) change in accounting policies or accounting estimates or correction of material accounting error for a reason other than change in accounting standards;
- (5) other matters stipulated in laws, administrative regulations, provisions of the China Securities Regulatory Commission and the Articles of Association.

**Article 11** The duties and responsibilities of the Audit Committee to supervise and evaluate the external auditors shall include, inter alia, the following:

- (1) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, to handle any issues relating to the resignation or removal of the external auditors and to assess the independence and professionalism of the external auditors;

- (2) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, in particular, the impact of the provision of non-audit services by the external auditors on their independence; the Audit Committee shall discuss with the external auditors on the nature and scope of the audit and related reporting obligations before the audit commences;
- (3) to develop and implement policies on the provision of non-audit services by the external auditors;
- (4) to discuss and communicate with the external auditors on the scope of the audit, the audit plan, the audit methodology and the significant matters identified in the audit;
- (5) to supervise and evaluate whether the external auditors perform their duties diligently.

**Article 12** The duties and responsibilities of the Audit Committee to direct the internal audit work shall include, inter alia, the following:

- (1) to review the Company's annual work plan for internal audit;
- (2) to guide and supervise the establishment and implementation of the internal audit system;
- (3) to review the work report on internal audit, to evaluate the results of the internal audit work, and supervise the rectification of any major problems;
- (4) to direct the effective operation of the internal audit department;
- (5) to coordinate the relationship between the internal audit department and external audit institutions such as accounting firms and national audit authorities.

The internal audit department of the Company shall report its work to the Audit Committee. Various audit reports, plans for rectification of audit issues and the status of rectification submitted by the internal audit department to the management shall be submitted to the Audit Committee at the same time.

**Article 13** The duties and responsibilities of the Audit Committee to review and express an opinion on the financial reports of the Company shall include, inter alia, the following:

- (1) to monitor the truthfulness, completeness and accuracy of the Company's financial statements, annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports, and to review significant opinions contained therein in respect of relevant financial reporting. The Audit Committee shall focus on significant accounting and auditing issues in the Company's financial reports and review, in particular, the following matters before submitting such statements and reports to the Board:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) major adjustments arising from audits;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Hong Kong Listing Rules and the legal requirements in relation to financial reporting;
- Regarding the above, the Audit Committee shall liaise with the Board and senior management; the Audit Committee shall convene separate communication meetings with external auditors at least twice a year, at which the secretary to the Board may be present; the Audit Committee shall consider any significant or extraordinary items that are, or shall be, reflected in such reports and accounts, and shall give due consideration to any matters raised by the staff responsible for accounting and financial reporting, compliance officer or auditors of the Company;
- (2) to pay special attention to the possibilities of fraud, corrupt practice and material misstatements in relation to financial reports;
- (3) to supervise the rectification of issues in relation to financial reports.

**Article 14** The duties and responsibilities of the Audit Committee to assess the effectiveness of internal control shall include, inter alia, the following:

- (1) to evaluate the adequacy of the design of the Company's internal control system;
- (2) to review the self-evaluation reports of internal control;
- (3) to review the internal control audit reports issued by the external auditors, as well as the matters and improvement measures formulated after communication with the external auditors;
- (4) to evaluate the results of internal control evaluations and audits, and supervise the rectification of deficiencies in internal control;
- (5) to review the financial control of the Company, and unless specifically dealt with by a risk committee of the Board or by the Board itself, review the risk management and internal control systems of the Company;
- (6) to discuss the risk management and internal control system with management to ensure that the management has performed its duty to establish an effective system. The discussion shall include the adequacy of resources, qualification, experience and training of staff and budget of accounting and financial reporting function of the Company;
- (7) 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;
- (8) to ensure the coordination between internal audit and external auditors if an internal audit function of the Company exists, and ensure that the internal audit function is provided with adequate resources for its operation within the Company and has appropriate standing; and review and monitor its effectiveness;
- (9) to review the financial and accounting policies and practices of the Company and its subsidiaries;
- (10) to inspect the external auditors' management letter issued to the management by the external auditors, any material queries raised by the external auditors to the management about accounting records, financial accounts or systems of control and the management's responses;
- (11) to ensure the Board will provide a timely response to any issues raised in the external auditors' management letter issued to the management by the external auditors;
- (12) to report to the Board on the matters set out in Appendix C1 "Corporate Governance Code" to the Hong Kong Listing Rules;
- (13) to consider other matters required by the Board.

**Article 15** The duties and responsibilities of the Audit Committee to coordinate the communication between the management, the internal audit department, relevant departments and external auditors include:

- (1) to coordinate the management's communication with external auditors on major audit issues;
- (2) to coordinate the communication between the internal audit department and the external auditors and to cooperate with external auditors;
- (3) to perform the role as a major representative of the Company to liaise with external auditors and supervise their relationship.

**Article 16** The Board of the Company shall fully respect the recommendations of the Audit Committee on the engagement or replacement of external auditors, and shall not set aside or refuse to vote on a recommendation of the Audit Committee without sufficient reason or reliable evidence.

**Article 17** The Audit Committee shall be provided with sufficient resources to perform its duties; when the Audit Committee performs its duties, it shall be supported by relevant departments of the Company at the expense of the Company.

**Article 18** Employees of the Company can, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for the Company to make fair and independent investigation on these matters and take appropriate actions therefor. The Audit Committee may establish and review a whistle blowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible irregularities in any matter related to the Company on an anonymous basis.

**Article 19** The Audit Committee may engage intermediary institutions to provide professional advice for its decision-making at the expense of the Company as it deems necessary.

**Article 20** The internal audit department is responsible for organizing and coordinating relevant departments or intermediary institutions to prepare the documents of the Audit Committee's meetings, and shall ensure that they are true, accurate and complete. The meeting documents shall include but are not limited to the relevant financial reports of the Company, work reports of internal and external auditors, external audit contracts and relevant work reports, public disclosure of information made by the Company, audit reports on major connected transactions of the Company, and other relevant matters.

**Article 21** The internal audit department shall perform the internal approval procedures for the meeting documents in accordance with the Company's internal management system and submit the documents to the securities affairs department.

**Article 22** The securities affairs department shall submit the meeting documents to the chairman of the Audit Committee for review, and a meeting of the Audit Committee shall be convened in a timely manner upon approval.

## **Chapter 4 Rules of Procedures**

**Article 23** Meetings of the Audit Committee are convened and chaired by the convener of the Audit Committee. The Audit Committee shall convene at least one meeting each quarter. Extraordinary meetings may be convened at the proposal of two or more members of the Audit Committee, or when deemed necessary by the convener of the Audit Committee. All members shall be notified three days prior to the meeting (if there is an urgent need to convene a meeting in time, the notification time limit shall not be subject to the above restriction, but the notification shall be made in advance within a reasonable period of time) and the meeting shall be chaired by the chairman, who may delegate another member to chair the meeting if he/she is unable to attend.

**Article 24** The Audit Committee's meetings shall only be convened with the attendance of two-thirds or more of the members.

Resolutions of the Audit Committee shall be passed by more than half of the members of Audit Committee.

Each member shall have one vote for voting on resolutions of the Audit Committee.

When the Audit Committee votes on related matters, the interested members shall abstain from voting thereon.

**Article 25** Voting at meetings of the Audit Committee shall be conducted by show of hands or by poll; a meeting may be convened by means of communications. Any interested member of the Audit Committee shall abstain from voting on matters under discussion.

**Article 26** Audit members may attend the meetings of the Audit Committee, and the directors and other senior management of the Company may also be invited to attend such meetings when necessary.

**Article 27** The convening procedures, voting methods and resolutions passed at the meetings of the Audit Committee shall comply with the requirements of relevant laws, regulations, the Articles of Association and these Terms of Reference.

**Article 28** The Audit Committee shall keep minutes of the meetings. Minutes of a meeting shall record in sufficient details the matters considered and the decisions reached at the meeting, and shall include any concerns raised or dissenting views expressed by the directors. Draft and final versions of the minutes of the meeting shall be sent to all members within a reasonable period of time after the meeting for their comments and record, and shall be signed by the members present at the meeting; and the minutes of the meeting shall be kept by the secretary to the Board of the Company. Minutes of such meetings shall be open for inspection at any reasonable time by any director upon reasonable notice.

**Article 29** The resolutions passed and the poll results at the Audit Committee's meetings shall be reported in writing to the Board of the Company.

**Article 30** All members present at the meeting shall be under an obligation of confidentiality with respect to the matters discussed at the meeting and shall not disclose the relevant information without authorization.

## **Chapter 5 Supplementary Provisions**

**Article 31** Matters not covered by these Terms of Reference shall be handled pursuant to the provisions of relevant laws, administrative regulations and departmental rules of the PRC, the Hong Kong Listing Rules and the Articles of Association. In the event that these Terms of Reference are in conflict with the laws and regulations promulgated by the PRC, the Hong Kong Listing Rules or the Articles of Association, the relevant laws and regulations of the PRC, the Hong Kong Listing Rules and the Articles of Association shall prevail, and these Terms of Reference shall be amended promptly and submitted to the Board for consideration and approval.

**Article 32** These Terms of Reference shall be construed and interpreted by the Board of the Company. In the event of any inconsistency between the English and Chinese versions of this document, the Chinese version shall prevail.

**Article 33** These Terms of Reference shall come into effect from the date of consideration and approval by the Board.

TYK Medicines, Inc  
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