

东曜药业

TOT BIOPHARM International Company Limited

東曜藥業股份有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1875)

Terms of Reference for the Audit and Connected Transactions Review Committee

1. Matters of the Audit and Connected Transactions Review Committee concerning the number of members, term of office, authority, rules of proceedings, and resources that the Company should provide when the Audit and Connected Transactions Review Committee exercises its authority, etc. shall be governed by the provisions of this Terms of Reference.
2. Members
 - 2.1 Members of the Audit and Connected Transactions Review Committee of TOT BIOPHARM International Company Limited (the “**Company**”) shall be appointed by the Board of Directors and the Audit and Connected Transactions Review Committee shall consist of at least three members.
 - 2.2 Members of Audit and Connected Transactions Review Committee should be limited to non-executive directors. The majority of the Audit and Connected Transactions Review Committee members shall be independent non-executive directors (“**independent non-executive directors**”) and at least one independent non-executive director member should have appropriate professional qualifications or accounting or related financial management expertise as required in Rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
 - 2.3 Chairman of the Audit and Connected Transactions Review Committee shall be appointed by the Board of Directors and shall be an independent non-executive director.
 - 2.4 The auditor responsible for the audit of any existing financial reports of the Company shall be prohibited from serving as a member of the Audit and Connected Transactions Review Committee for a period of two years beginning on (a) the date on which such auditor is no longer a partner of the auditors’ firm; or (b) the date on which such auditor no longer has any financial interests in that auditors’ firm, whichever is later.
3. Responsibilities of the Audit and Connected Transactions Review Committee are to review and supervise the Company’s financial reports and procedures for controlling transactions with connected parties, as well as to review the risk management and internal control system of the Company regarding its design, adequacy of operation, effectiveness, and to monitor the results. In this way, the Audit and Connected Transactions Review Committee can assist the Board of Directors in fulfilling their

audit duties. The Audit and Connected Transactions Review Committee shall have the following duties and powers:

3.1 Relationship with the Company's auditors

- 3.1.1 To be primarily responsible for making recommendations to the Board of Directors 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 any problems relevant to the resignation or dismissal of such auditor;
- 3.1.2 To review and monitor whether the external auditor is independent and objective and whether the audit process is effective in accordance with applicable standards. Before the audit commences, the Audit and Connected Transactions Review Committee should discuss with the auditors on the nature and scope of audit and the related reporting obligations;
- 3.1.3 To develop and implement policies on the engagement of an external auditor to provide non-audit services. For the purpose of this Terms of Reference, "external auditor" includes any entity that is under the common control, ownership or management as the company in charge of the audit, or any entity that a third party with reasonable knowledge of all relevant information would reasonably conclude to be part of the company-in-charge that represents its local or international audit business. The Audit and Connected Transactions Review Committee should report to the Board of Directors and make recommendations on any matters requiring actions or improvement.

3.2 Review of the financial information of the Company

- 3.2.1 To supervise the integrity of any financial statements, annual reports, accounts, half-year reports, and quarterly reports (if intended to publish) and to review any significant opinion relevant to financial filings contained in the financial statements and reports. The Audit and Connected Transactions Review Committee shall, before submitting the relevant statements and reports to the Board of Directors, review such statements and reports with a particular focus on the following matters:
 - 1) Any changes in accounting policies and practices;
 - 2) Significant judgments;
 - 3) Major adjustments resulting from the audit;
 - 4) Going concern assumption about the Company and any qualifications;
 - 5) Compliance with accounting standards; and
 - 6) Compliance with the Listing Rules and legal requirements in relation to financial reporting

3.2.2 Regarding the above matters:

- 1) Members of the Audit and Connected Transactions Review Committee should liaise with the Board of Directors and senior management. The Audit and Connected Transactions Review Committee must meet with the auditors of the Company at least twice a year; and
- 2) Audit and Connected Transactions Review Committee shall pay attention to any significant or unusual items that are, or required to be, reflected in such reports and accounts, and should pay due attention to any matters that have been raised by accounting and financial reporting staff, compliance officer or auditors of the Company.

3.3 Supervision of the Company's financial reporting system, risk management and internal control system

- 3.3.1 To review the Company's financial control, and (unless it is clearly to be dealt with by the Risk Committee separately established under the Board of Directors or by the Board of Directors itself) to review the risk management and internal control system of the Company.
- 3.3.2 To discuss the risk management and internal control system with the management to ensure that the management has fulfilled its responsibility by establishing effective systems. The discussion should cover the adequacy of resources, staff qualifications and experience, training courses received by the staff and the budgets in the accounting and financial reporting function.
- 3.3.3 To study any important investigation findings on risk management and internal control matters and the management's response to such investigation findings on its own initiative or in respond to the delegation by the Board of Directors.
- 3.3.4 The Company has internal audit function, and it is necessary to ensure the co-ordination of work between the internal and external auditors; it is also necessary to ensure that the internal audit function has sufficient resources to operate within the Company and has appropriate standing; and to review and monitor its effectiveness.
- 3.3.5 To review the financial and accounting policies and practices of the Group.
- 3.3.6 To review the "Letter explaining audit circumstances" given by the external auditor to the management, any material queries raised by the auditor to the management concerning the accounting records, financial accounts or internal control system and the management's response.
- 3.3.7 To ensure that the Board of Directors timely responds to matters raised in the "Letter explaining the audit circumstances" given by the external auditor to the management.

3.3.8 To report to the Board of Directors on matters relating to the provisions of this Terms of Reference.

3.3.9 To study other issues as defined by the Board of Directors.

3.4 Review of connected transactions of the Company

3.4.1 Definition of “related party”: the Company will define “related party” in accordance with the Hong Kong Accounting Standard. For further details, please refer to the Corporate Governance Policy– “Related Party and Connected Transactions Policy”.

3.4.2 Identification of “related party”: The Chief Financial Officer (“**CFO**”) is responsible for preparing and maintaining a list of “related parties” so as to monitor any connected transactions identified and ensure that the Company can report a complete record of connected transactions. All directors are required to declare any shareholding they held in any external companies and to report any updates in board meeting. The CFO should update the list of “related parties” every month based on declarations made by the directors and the structure of the Company such that the list could reflect the latest structure of the Company.

3.4.3 Review of the list of “related party”: The Audit and Connected Transactions Review Committee shall review the list of “related parties” in every meeting and the scope of review includes the completeness and accuracy of the list. The Audit and Connected Transactions Review Committee shall review all minutes of board meeting and information declared and check these against the list for consistency. The Audit and Connected Transactions Review Committee should also conduct background check on the directors and shareholders to check whether there is any omission in declaration. If it is discovered that a director or shareholder deliberately failed to declare, it is necessary to report such omission(s) in a general meeting and to check the transaction record between the Company and the omitted “related party”. In case of fraud, the Company reserves all rights to take legal action.

3.4.4 Review of transaction information with “related party”

3.4.5 Before the Company conducts any transaction with a “related party” as necessitated by its operations, the CFO shall provide the following relevant information to the Audit and Connected Transactions Review Committee and the Board of Directors to facilitate their review, including:

- 1) A description of necessity of the transaction
- 2) A description of the reasonableness of the transaction regarding the price and conditions of the transaction and whether such transaction follows market practice.

4. The chairman or member of the Audit and Connected Transactions Review Committee (who must be independent non-executive directors) should attend the Annual General Meeting of the Company and be prepared to answer any questions raised by the shareholders concerning the activities and the responsibilities of the Audit and Connected Transactions Review Committee. If the chairman of the Audit and Connected Transactions Review Committee is unable to attend, a member of the Audit and Connected Transactions Review Committee (who must be an independent non-executive Director) must attend the Annual General Meeting of the Company. Such member should be prepared to respond to any questions regarding the activities of the Audit and Connected Transactions Review Committee raised by the shareholders.
5. The role of the Audit and Connected Transactions Review Committee and its scope of authority as granted by the Board of Directors will be posted on the website of the Company and the website of The Stock Exchange of Hong Kong Limited.
6. Meeting and records
 - 6.1 The Audit and Connected Transactions Review Committee should hold at least two meetings every year. When a meeting is convened by the Audit and Connected Transactions Review Committee, relevant information shall be prepared for the members of the Committee to examine at any time.
 - 6.2 Members of the Audit and Connected Transactions Review Committee shall attend meetings of the Audit and Connected Transactions Review Committee in person. If any member participates in a meeting through video conference, such member shall be deemed to be present in person.
 - 6.3 Minutes shall be taken regarding all discussions in any meeting of the Audit and Connected Transactions Review Committee and the minutes shall record the following items in details:
 - 6.3.1 Session, time, date, and location of meeting;
 - 6.3.2 Name of the chairman;
 - 6.3.3 Attendance of independent board members, including the name and number of members who are present, on leave or absent;
 - 6.3.4 Name of person who took the minutes;
 - 6.3.5 Matters reported in the meeting;
 - 6.3.6 Matters discussed in the meeting;
 - 6.3.7 Other matters that should be recorded

- 6.4 The draft and final version of the minutes of such meetings should be signed or sealed by the chairman and the person who took the minutes, and should be sent to the independent director committee members within a reasonable time (such as within 20 days) after the meeting. The minutes should also be classified as a material document of the Company and be safely and permanently kept during the existence of the Company. Also, a complete record of minutes of the meeting of the Audit and Connected Transactions Review Committee should be kept by the secretary officially appointed for such meetings (usually the company secretary).
7. Meeting agenda of the Audit and Connected Transactions Review Committee is determined by the convener. Other members should also propose motion for the committee members to discuss.
8. Members of the Audit and Connected Transactions Review Committee should avoid participating in any discussion on matters that concern their own interests.
9. Audit and Connected Transactions Review Committee should regularly review matters relating to this Terms of Reference and submit any amendments to the Board of Directors. This Terms of Reference is implemented after being approved by a resolution of the Board of Directors.

Notes:

1. Audit and Connected Transactions Review Committee may consider establishing the following procedures to review and monitor the independence of the external auditor:
 - (i) To study all relationship between the issuer and the auditors (including non-audit services);
 - (ii) To obtain information from the auditors on an annual basis to understand the policies and procedures adopted by the auditors to maintain its independence and monitor the implementation of the relevant rules, including the requirement for the rotation of audit partners and staff; and
 - (iii) To meet the auditors in the absence of the management for at least once a year, and to discuss any matters relating to audit fees, any matters arising from audit work and other matters that the auditors would like to raise.
2. Audit and Connected Transactions Review Committee may consider to cooperate with the Board of Directors in developing a policy on the employment of current or former staff of external auditor by the issuer, and should monitor the implementation of such policy. In this regard, the Audit and Connected Transactions Review Committee should consider whether the circumstances of such employment will impair or appears to impair the judgment or independence of the auditors in the audit work.
3. Audit and Connected Transactions Review Committee should ensure that the provision of non-audit services by the external auditor will not impair their independence or objectivity. When assessing the independence or objectivity of the external auditor in providing the non-audit services, the Audit and Connected Transactions Review Committee may consider the following matters:
 - (i) Whether it is suitable for the auditor to provide such non-audit services to the issuer in terms of its capability and experience;
 - (ii) Whether precautions are in place to ensure that the objectivity and independence of the external auditor will not be threatened by its provision of non-audit services;

- (iii) The nature of the non-audit services, the level of relevant fees and the level of individual service fee and aggregate service fee in view of that auditor; and
 - (iv) The standard for determining the remuneration of auditors.
4. For further guidance, the issuer may refer to the “Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor’s Independence” issued by the Technical Committee of the International Organization of Securities Commissions in October 2002 and the “A Guide for Effective Audit Committee” issued by the Hong Kong Institute of Certified Public Accountants in February 2002. The issuer may adopt the scope of authority of an Audit Committee as set out in those guidelines, or any other equivalent scope of authority.