

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 (as approved by the board of directors on 22 December 2022 and effective on 1 January 2023)

1. Matters of the Audit and Connected Transactions Review Committee concerning the composition, number of members, duties and powers, rules of proceedings and resources that TOT BIOPHARM International Company Limited (the “**Company**”) should provide when the Audit and Connected Transactions Review Committee exercises its authority etc., shall be governed by the provisions of these Terms of Reference.
2. Members
 - 2.1 Members of the Audit and Connected Transactions Review Committee 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 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 The chairperson of the Audit and Connected Transactions Review Committee (the “**Chairperson**”) 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. Authority
 - 3.1 The Audit and Connected Transactions Review Committee is granted the authority to act within these Terms of Reference.
 - 3.2 The Audit and Connected Transactions Review Committee shall be provided with sufficient resources to perform its duties.

- 3.3 The Audit and Connected Transactions Review Committee is authorised by the Board of Directors, at the Company's expense but subject to prior discussion with the Board of Directors on costs, to obtain outside financial, legal or other independent professional advice as necessary to assist the Audit and Connected Transactions Review Committee if it considers necessary.
- 3.4 The Audit and Connected Transactions Review Committee is authorised by the Board of Directors to act as the key representative body for overseeing the Company's relations with the external auditors.
4. 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 perform the following duties:
- 4.1 Relationship with the Company's auditors
- 4.1.1 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. Where the Board of Directors disagrees with the Audit and Connected Transactions Review Committee's view on the appointment, re-appointment and removal of the external auditors, the Company should include in the corporate governance report a statement from the Audit and Connected Transactions Review Committee explaining its recommendation and also the reason(s) why the Board of Directors has taken a different view;
- 4.1.2 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;
- 4.1.3 To develop and implement policies on the engagement of an external auditor to provide non-audit services. For the purpose of these 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.

4.2 Review of the financial information of the Company

4.2.1 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 opinions 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.

4.2.2 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 should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and should give due consideration to any matters that have been raised by accounting and financial reporting staff, compliance officer or auditors of the Company.

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

4.3.1 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.

4.3.2 To discuss the risk management and internal control system with the management to ensure that the management has fulfilled its responsibilities 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.

- 4.3.3 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 response to the delegation by the Board of Directors.
- 4.3.4 To ensure the co-ordination of work between the internal audit function of the Company and external auditors; and 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.
- 4.3.5 To review the financial and accounting policies and practices of the Company and its subsidiaries (the "**Group**").
- 4.3.6 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.
- 4.3.7 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.
- 4.3.8 To formulate, monitor and oversee the anti-corruption and anti-bribery policies and systems of the Group (including reviewing such policies from time to time to ensure they remain effective and adequate for the purpose of the applicable laws and regulations and to make recommendations to the Board for any amendments to the policies where necessary).
- 4.3.9 To formulate, monitor and oversee the whistle-blowing policies and systems of the Group (including reviewing such policies from time to time to ensure they remain effective and adequate and to make recommendations to the Board for any amendments to the policies where necessary) so that the employees and other persons (e.g. customers and suppliers) who deal with the Group can, in confidence and anonymity, report to the Audit and Connected Transactions Review Committee concerns about any possible impropriety in financial reporting, internal control or other matters relating to the Group and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.
- 4.3.10 To report to the Board of Directors on matters relating to the provisions of these Terms of Reference.
- 4.3.11 To study other issues as defined by the Board of Directors.

4.4 Review of connected transactions of the Company

4.4.1 Definition of “related party”: the Company will define “related party” in accordance with the Hong Kong Accounting Standards.

4.4.2 Identification of “related party”: The head of finance of the Company (the “**Head of Finance**”) 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 meetings. The Head of Finance 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.

4.4.3 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 meetings 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 the 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 records between the Company and the omitted “related party”. In case of fraud, the Company reserves all rights to take legal action.

4.4.4 Review of transaction information with “related party”: Before the Company conducts any transactions with a “related party” as necessitated by its operations, the Head of Finance 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 the necessity of the transaction; and
- 2) A description of the reasonableness of the transaction regarding the price and conditions of the transaction and whether such transaction follows market practice.

5. The Chairperson 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 Chairperson is unable to attend, a member of the Audit and Connected Transactions Review Committee must attend the Annual General Meeting of the Company. Such member should be prepared to answer any questions regarding the activities of the Audit and Connected Transactions Review Committee raised by the shareholders.

6. The role of the Audit and Connected Transactions Review Committee and its scope of authority as granted by the Board of Directors will be published on the website of the Company and the website of The Stock Exchange of Hong Kong Limited.
7. Meeting and records
 - 7.1 The Audit and Connected Transactions Review Committee should hold at least two meetings every year. Additional meetings of the Audit and Connected Transactions Review Committee may be held when necessary.
 - 7.2 Meetings of the Audit and Connected Transactions Review Committee may be convened by any of its members or the company secretary. Unless agreed by all members of the committee, at least 14 days' notice shall be given before the meeting. Regardless of the length of the notice period, if a member of the committee is present at the meeting, he/she shall be deemed to have agreed to waive the notice period unless, at the beginning of the meeting, such member attending the meeting is present to express his/her objection to the meeting's handling of any matter on the ground that the meeting has not been properly convened.
 - 7.3 The Chairperson shall preside over all meetings of the committee. In his/her absence, he/she shall be substituted by a representative appointed by the Chairperson. The Chairperson shall be responsible for leading the committee, including arranging for meeting, preparing agenda and reporting to the Board of Directors regularly.
 - 7.4 At the invitation of the Chairperson and/or the Board of Directors, other directors, senior management, external consultants and other persons may be invited to attend the whole or part of any meetings. But only members of the committee may vote at the meeting.
 - 7.5 Meetings can be held in person, by telephone or through video conference, but all participants must be able to hear each other.
 - 7.6 Any resolution of the Audit and Connected Transactions Review Committee shall be passed by a majority of members present in a meeting.
 - 7.7 The company secretary shall attend all meetings of the committee (except for legitimate reasons, for instance, when he/she is required to abstain from attending the meeting due to conflicts of interest) and take minutes regarding all discussions in any meetings of the Audit and Connected Transactions Review Committee and the minutes shall record the following matters in details:
 - 1) Session, time, date and location of the meeting;
 - 2) Name of the chairperson of the meeting;
 - 3) Attendance of members, including the name and number of members who are present, on leave or absent;

- 4) Name of person who took the minutes;
- 5) Matters reported in the meeting;
- 6) Matters discussed in the meeting; and
- 7) Other matters that should be recorded.

7.8 The draft and final version of the minutes of the Audit and Connected Transactions Review Committee meeting shall be sent to all members of the Audit and Connected Transactions Review Committee for comment and record within a reasonable time after the meeting. The final version of the minutes of the meeting shall be signed by the Chairperson or by the chairperson of that meeting.

7.9 A complete record of all minutes of the Audit and Connected Transactions Review Committee shall be kept by the secretary officially appointed for such meetings (who is usually the company secretary) and shall be available for inspection by the members of the Audit and Connected Transactions Review Committee or the members of the Board of Directors at any reasonable time upon reasonable notice.

8. Meeting agenda of the Audit and Connected Transactions Review Committee shall be determined by the convener. Other members may also propose motion for the Audit and Connected Transactions Review Committee to discuss.

9. Members of the Audit and Connected Transactions Review Committee should avoid participating in any discussion on matters that concern their own interests.

10. Audit and Connected Transactions Review Committee shall regularly review matters relating to these Terms of Reference and submit any amendments to the Board of Directors. These Terms of Reference are implemented after being approved by the Board of Directors.