



Lee's Pharmaceutical Holdings Limited

李氏大藥廠控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 950)

(the "Company")

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

(Amended and restated with effect from 1 January 2016)

1. Membership

1.1. The Audit Committee shall be appointed by the board (the "**Board**") of directors (the "**Directors**") of the Company and should comprise a minimum of three members (the "**Members**").

1.2. The Members shall be appointed from amongst the non-executive Directors. The majority of Members shall be independent non-executive Directors ("**INEDs**") and at least one INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

1.3. The Board shall appoint the chairman of the Audit Committee (the "**Chairman**"). The Chairman must be an INED.

1.4. A former partner of the Company's existing auditing firm should be prohibited from acting as a Member for a period of one 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.

1.5. The term of each appointment to the Audit Committee shall be determined by the Board upon appointment.

2. Secretary

2.1. The company secretary of the Company shall be the secretary of the Audit Committee.

2.2. The Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Audit Committee.

3. Meetings

3.1. Meetings shall be held not less than two times a year. The external auditors may make the request to the Chairman to convene a meeting of the Audit Committee.

** for identification purpose only*

3.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date shall be sent to each Member, and to any other person required to attend in relation to all regular meetings of the Audit Committee, at least 14 days before the date of the meeting; and in relation to continued meetings held within 14 days, no prior notice is required.

3.3. The quorum of Audit Committee meetings shall be any two Members.

3.4. Meetings can be held in person, by telephone or by video conference. Members may participate in a meeting by means of a conference telephone or similar communications equipment or through electronic means of communications by means of which all persons participating in the meeting are capable of hearing each other.

3.5. Resolutions of the Audit Committee at any meetings shall be passed with a majority of votes of the Members present.

3.6. Resolutions in writing signed by all the Members will be treated valid as if it has been passed at a meeting of the Audit Committee duly convened and held.

3.7. Full minutes of the Audit Committee meetings shall be kept by the secretary of the Audit Committee and shall be available for inspection by any Member and/or any Director at any reasonable time on reasonable notice. Draft and final versions of minutes of Audit Committee meetings shall be sent to all the Members for their comment and records within a reasonable time after the meeting. Once these are agreed, the secretary of the Audit Committee shall circulate the minutes and reports of the Audit Committee to all members of the Board.

4. Attendance of Meetings

4.1. The Audit Committee shall attend meetings at least once a year with the external auditors without executive Board members present (except those invited by the Audit Committee).

4.2. Upon invitation by the Audit Committee, the following persons may attend all or any of the meetings: (a) the head of internal audit, or if absent, the representative of internal audit; and (b) chief financial officer.

4.3. Other members of the Board may attend meetings of the Audit Committee although only the Members shall have the voting powers.

5. Annual general meetings

5.1. The Chairman shall attend the annual general meetings of the Company and be prepared to respond to any shareholder questions on the Audit Committee's activities. If the Chairman is unable to attend, a Member (who must be an INED), or failing this his duly appointed delegate, shall attend the annual general meetings of the Company. Such person shall be prepared to respond to shareholder questions on the Audit Committee's activities and their responsibilities.

6. Duties and responsibilities

The duties of the Audit Committee is to serve as a focal point for communication between other directors, the external auditors, and the management as their duties relate to financial and other reporting, risk management and internal control systems and the audits; and to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, be satisfying themselves as to the effectiveness of the company's risk management and internal control systems and as to the efficiency of the audits.

The duties and responsibilities of the Audit Committee shall be:

Relationship with the Company's auditors:

6.1. to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

6.2. 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;

6.3. to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally;

6.4. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's the financial information

6.5. to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports (if applicable), and to review significant financial reporting judgements contained in them. In reviewing these reports (if applicable) before submission to the Board, the Audit Committee should focus particularly on:

- (a) any changes in financial reporting and accounting policies and practices;
- (b) major judgmental areas;
- (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, other applicable rules and legal requirements in relation to financial reporting;

6.6. Regarding paragraph 6.5 above:

(a) Members shall liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and

(b) 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;

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

6.7. to review the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;

6.8. the annual review of the risk management and internal control systems should, in particular, include the following matters:

(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 Board (or Board committee(s)) which enables it to assess control of the Company 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 Listing Rule compliance;

6.9. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective risk management and internal control systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of staff of the Company's accounting and financial reporting function;

6.10. to consider major investigations 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;

6.11. 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 its effectiveness;

- 6.12. to review the group's financial and accounting policies and practices;
- 6.13. to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 6.14. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.15. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management and 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;
- 6.16. to act as the key representative body for overseeing the Company's relations with the external auditor;
- 6.17. to establish a whistleblowing 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 improprieties in any matter related to the Company;
- 6.18. to report to the Board on the matters set out in paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (as amended from time to time); and
- 6.19. to consider other topics, as defined by the Board.

7. Reporting responsibilities

7.1. After each meeting, the Audit Committee shall report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

8. Authority

8.1. The Audit Committee is authorised by the Board to investigate any financial information and records of the Company.

8.2. The Audit Committee is authorised by the Board when necessary to seek any financial information it requires from any employee of the Company and its subsidiaries, to require any of them to prepare and supply financial information and answer questions raised by the Audit Committee.

8.3. The Audit Committee is authorised by the Board when necessary to seek independent professional advice in connection with its duties or to perform its responsibilities at the Company's expense.

Note: All such arrangements to seek independent professional advice could be made through company secretary of the Company.

8.4. The Audit Committee shall be provided with sufficient resources to perform its duties.