



## WAI YUEN TONG MEDICINE HOLDINGS LIMITED

(位元堂藥業控股有限公司\*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 897)

### TERMS OF REFERENCE OF AUDIT COMMITTEE

#### 1. Constitution

- 1.1 The audit committee (the “**Committee**”) of Wai Yuen Tong Medicine Holdings Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”) is a committee of the board of directors of the Company (the “**Board**”).

#### 2. Membership

- 2.1 The members of the Committee shall be appointed by the Board amongst the non-executive directors of the Company (the “**NED(s)**”) and shall consist of not less than three (3) members, at least one of whom is an independent non-executive director of the Company (the “**INED(s)**”) with appropriate professional qualifications or accounting or related financial management expertise. The majority of the members of the Committee must be INEDs pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
- 2.2 The chairman of the Committee shall be appointed by the Board amongst the INEDs.
- 2.3 The company secretary of the Company or may be otherwise determined by the Board, shall act as the secretary of the Committee.
- 2.4 A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Committee for a period of one (1) 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 the later.

#### 3. Proceedings of the meetings

- 3.1 A quorum for a meeting shall be two members of the Committee.
- 3.2 The chairman of the Board, managing director, the chief financial controller, the head of internal audit and the representative(s) of the external auditors shall normally be invited to attend meeting(s), where appropriate. Other staff members, including other Board members, who have specific responsibility for an issue under review may also be invited to attend.

\* For identification purpose only

3.3 A resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee and may consist of several documents in like form each signed by one or more of the members of the Committee.

3.4 Proceedings of meetings of the Committee shall be governed by the provisions of the bye-laws of the Company.

#### **4. Frequency of meetings**

4.1 Meetings shall be held not less than twice a year. The external auditors may request the chairman of the Committee to convene a meeting if they consider that it is necessary.

4.2 The chairman of the Committee may convene additional meetings at his/her discretion.

#### **5. Authority**

5.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee or executive director and all employees are directed to co-operate with any request made by the Committee.

5.2 The Committee is to be provided with sufficient resources to discharge its duties and it is authorised by the Board, and at reasonable expense of the Company, to obtain outside legal or other independent professional advice and having ensured the Company's interests are protected, to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

5.3 The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the board.

5.4 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee should include in the corporate governance report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

#### **6. Duties, roles and functions**

The duties of the Committee are:

##### **6.1 Relationship with the Company's external auditors**

(a) 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;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

- (c) 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. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

## 6.2 Review of Company’s financial information

- (d) to monitor integrity of the Company’s financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:-
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (e) In regard to (d) above:-
  - (i) members of the Committee should liaise with the Board and senior management<sup>(note)</sup> and the Committee must meet, at least twice a year, with the Company’s external auditors; and
  - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company’s staff responsible for accounting and financial reporting function, compliance officer or auditors;

## 6.3 Oversight of the Company’s financial reporting system and internal control procedures

- (f) to review the Company’s financial controls, internal control and risk management systems;
- (g) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company’s accounting and financial reporting function;

- (h) to consider major investigations findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (i) 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;
- (j) to review the Group's financial and accounting policies and practices;
- (k) 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;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

#### 6.4 Others

- (m) to report to the Board on the matters set out in the code provisions of the Corporate Governance Code under Appendix 14 of the Listing Rules (as amended from time to time);
- (n) to consider other topics, as defined by the Board;
- (o) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee is to ensure proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action;
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor; and
- (q) the chairman or another member of the Committee shall attend the Company's annual general meetings and be prepared to respond to questions raised by shareholders on the Committee's activities and responsibilities.

### 7. Reporting procedures

7.1 The Committee shall report to the Board on a regular basis. At the next meeting of the Board following a meeting or the passing of any written resolution(s) of the Committee, the Chairman shall report such findings and recommendations of the Committee to the Board.

*Note: "senior management" shall refer to the same persons referred to in the Company's annual report and is required to be disclosed under paragraph 12 of Appendix 16 to the Listing Rules.*

March 2012