

DAWNRAYS PHARMACEUTICAL (HOLDINGS) LTD.
(“Company”)
Terms of Reference for Audit Committee
(“Committee”)

1. Constitution

1.1 The board of directors (the “Board”) of the Company resolved to establish a Committee of the Board known as the Audit Committee on 21 June 2003.

2. Membership

2.1 The Audit Committee shall be appointed by the Board and must comprise non-executive directors of the Company and shall consist of not less than three members (the “Members”), a majority of whom should be independent non-executive directors.

2.2 In case of the Board shall appoint a former partner of the Company’s existing audit firm, such former partner should be prohibited from acting as a Member of the Audit Committee for a period of two years 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.

2.3 The Chairman of the Audit Committee shall be appointed by the Board and must be an independent non-executive director.

3. Secretary

3.1 The Company Secretary shall be the secretary of the Audit Committee.

4. Quorum and voting at meetings

4.1 The quorum for meetings of the Audit Committee shall be two members. A duly convened meeting of the Audit Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit Committee.

4.2 Only members of the Audit Committee are entitled to vote at the meetings.

4.3 Any resolution of the Audit Committee shall be decided by a majority of votes.

5. Attendance at Meetings

- 5.1 The Finance Director/Group Chief Financial Officer/Financial Controller, the Head of Internal Audit, and a representative of the external auditors shall normally attend meetings. However, at least twice in each financial year the Audit Committee shall meet with the external and internal auditors without executive directors present.
- 5.2 Meetings could 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 by means of which all persons participating in the meeting are capable of hearing each other.

6. Frequency of Meetings

- 6.1 Meetings of the Audit Committee shall be held not less than twice in each financial year.
- 6.2 Any Member of the Audit Committee or the external auditors may request a meeting if they consider that one is necessary.

7. Notice of Meetings

- 7.1 Notice of any meetings has to be given at least 7 days prior to any such meeting being held, unless all Members unanimously waive such notice. Notice of any adjourned meeting is not required if adjournment is for less than 14 days.
- 7.2 An agenda of items to be discussed, together with supporting documents (if any), shall be sent to Audit Committee members within a reasonable period of time prior to the date of the meeting.
- 7.3 Any member of the Audit Committee shall be entitled, by notice to the secretary of the Audit Committee, to include other matters relevant to the functions of the Audit Committee in the agenda of an Audit Committee meeting.

8. Minutes of Meetings

- 8.1 Minutes shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes shall be circulated to all Audit Committee members for their comment and records, within a reasonable period of time after the meeting. Such minutes shall be open for inspection by directors of the Company.
- 8.2 A resolution in writing signed by all the Members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.

9. Annual General Meeting

9.1 The Chairman of the Audit Committee or in his/her absence, another Member of the Audit Committee, shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Audit Committee's activities and their responsibilities.

10. Duties

10.1 The duties of the Audit Committee shall be:

Relationship with the Company's 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 standards. The Audit 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 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 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 Audit 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) regarding (d) above:
 - (i) Members should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) 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

- (f) 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;
- (g) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. 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 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;

- (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;
- (m) to review the Company's arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, 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 by the Company;
- (n) to report to the Board on the matters in the above; and
- (o) to consider other topics, as defined by the Board.

11. Authority

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

11.2 The Audit Committee shall be provided with sufficient resources to perform its duties including but not limited to obtaining, at the expense of the Company, outside legal or other independent professional advice through the Company Secretary's arrangement and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

12. Reporting Procedures

12.1 The Audit Committee should report to the Board after each meeting.

12.2 Full minutes of the Audit Committee meetings should be kept by the secretary of the Audit Committee.

Last revised on: 29 May 2019