

**EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED**  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code : 00858)**

**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**  
**(Revised on 21 March 2012)**

**A. Constitution**

Mr. Fang Lin Hu (Independent Non-executive Director)	Chairman
Mr. Xue Jing Lun (Independent Non-executive Director)	Member
Ms. Jin Song (Independent Non-executive Director)	Member

**B. Objective**

The major role and function of the committee are to act as the key representative body of the company in order to ensure the maintenance of proper relationship with the company's external auditor, the establishment of proper review and control arrangements relating to internal control systems, financial reporting and the compliance to applicable reporting requirement.

**C. Terms of reference**

The committee's responsibilities include but not limited to the following:

1. To be primarily responsible for making recommendation to the board 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 any questions of resignation or dismissal of that auditor;
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 committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

3. To develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The committee should report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
4. To monitor integrity of financial statements of the company and the company's annual report and accounts, half-year report, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the company's annual report and accounts, half-year report 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;
  - (vi) compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and other legal requirements in relation to financial reporting; and
  - (vii) consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the company's qualified accountant, compliance officer or auditor.
5. To review the company's financial controls, internal control and risk management systems;
6. To discuss with the company's management the system of internal control and ensure that management has discharged its duty to maintain an effective internal control system;

7. To consider any findings of major investigations of internal control matters as delegated by the board or on its own initiative and management's response;
8. To review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of internal control and management's response;
9. To ensure that the board will provide a timely response to the issues raised in the auditor's management letter;
10. To meet with the auditor, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise;
11. To consider establishing the following procedures to review and monitor the independence of external auditor:
  - (i) consider all relationships between the company and the audit firm (including the provision of non-audit services);
  - (ii) seek from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding rotation of audit partners and staff.
12. The committee may wish to consider agreeing with the board the company's policies relating to the hiring of employees or former employees of the external auditor and monitor the application of such policies. The committee should then be in a position to consider whether in the light of this there has been any impairment or appearance of impairment, of the auditor's judgment or independence in respect of the audit.
13. The committee would normally be expected to ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee may wish to consider:

- (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;
- (ii) whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;
- (iii) the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm; and
- (iv) the criteria which govern the compensation of the individuals performing the audit.

#### **D. Meetings**

The committee shall meet with such frequency as it may consider appropriate but in any event no less than twice every year.

The chairman of the committee shall be the chairman of the meeting, and in the absence of the chairman, the remaining members present shall elect one of themselves to chair the meeting.

The quorum of a meeting shall be two members of the committee.

The meetings and proceedings of the committee are governed by the provisions contained in the company's bye-laws 140 – 142.

The company secretary or a nominee (except the executive directors) by the board shall act as the secretary of the committee.

#### **E. Support from the company**

The committee is authorized by the board to utilize all such resources as are required to discharge its duties and to have access to independent professional advice if considered necessary.