

# **LOTUS PHARMACEUTICAL CO., LTD**

## **AUDIT COMMITTEE CHARTER**

**[English translation for reference only]**

**Approved on 2018/02/12**

1. The Audit Committee Charter (the “Charter”) is promulgated pursuant to Article 3 of the “Regulations Governing the Exercise of Powers by Audit Committees of Public Companies”.
2. Matters related to the number and term of the Audit Committee (the “Committee”) members, responsibilities and duties, rules of procedure for meetings, and resources to be provided by the Company when the Committee exercises its duties shall be conducted in compliance with the Charter.
3. The Committee’s primary purpose is to supervise the following items:
  - i. The reliability and integrity of the financial reporting of the Company;
  - ii. Appointment and discharge of the Company’s independent auditors, as well as assessment of such auditors’ independence and performance;
  - iii. The effectiveness of the Company’s internal control system;
  - iv. The Company’s compliance with legal or regulatory requirements; and
  - v. Control over the existing or potential risks of the Company.
4. The Committee shall be composed of all the Company’s independent directors and shall not be less than three persons, among which one of the members shall be the convener and at least one person shall be knowledgeable in accounting or financial matters.

The term of the Committee’s independent directors is three years; however, the independent directors can serve another term if being elected. When a member of the Committee resigns, resulting in the number of members fewer than that required, a

by-election for independent director shall be held at the coming general shareholders' meeting. If all the members of the Committee resign or are dismissed, the Company shall convene a special shareholders' meeting to hold a by-election within 60 days from the date on which the situation arose.

5. Responsibilities conferred by the Securities and Exchange Act, the Company Act, and any other law to be exercised by Supervisors, except for those set forth in Paragraph 4 of Article 14-4 of the Securities and Exchange Act, shall be exercised by the Committee.

The provisions of Paragraph 4 of Article 14-4 of the Securities and Exchange Act concerning acts done by Supervisors and the role of Supervisors as representatives of the Company shall apply mutatis mutandis to the members of the Committee.

6. The duties and responsibilities of the Committee are as follows:
  - i. Adopting or revising internal control systems in accordance with Article 14-1 of the Securities and Exchange Act;
  - ii. Reviewing the effectiveness of internal control systems;
  - iii. Adopting or amending material financial procedures for acquisition or disposal of assets, transactions of financial derivatives, loans, endorsement and guarantees to other parties in accordance with Article 36-1 of the Securities and Exchange Act;
  - iv. Matters that involve personal interest of Directors;
  - v. Material transactions of assets or derivatives;
  - vi. Material loans, endorsements or guarantees;
  - vii. Offering, issuance, or private placement of any equity-type securities;
  - viii. Appointing or discharging the Company's independent auditors and the fees;
  - ix. Appointing or discharging the Officers of finance, accounting, or internal

auditing;

- x. Reviewing the Company's annual and semi-annual financial reports; and
- xi. Other material items related to the Company or requested by regulatory authorities.

Resolutions for the aforesaid items shall be adopted by majority of all the Committee members and then such resolutions shall be proposed for Board of Directors' resolutions.

All the items in Paragraph 1, except for Item 10, can be resolved and approved by two-thirds or more of all Directors if not being approved by majority of all the Committee members.

The term of "all the Committee members" used in the Charter shall be based on the number of members actually in office.

The Committee convener shall represent the Committee to the public.

- 7. The Committee Meeting shall be held at least once every quarter, and it may be convened at any time if necessary.

The Meeting shall be convened upon notices sent to all the Committee members seven days prior to the date of the meeting, specifying the meeting agenda. However, meetings may be convened at any time without such prescribed notices in case of urgent circumstances.

One member shall be elected as convener and chairperson by and from among the all members. When the convener is on leave or otherwise unable to convene a meeting for any reason, the meeting shall be convened by another independent director designed by the convener. If no such designation is made, a meeting shall be convened by another member elected by and from among the independent directors of the Committee.

The Committee may request officers from the relevant departments, internal auditors, accountants, legal counsels, or other personnel to attend the meeting and provide necessary information, and shall to leave from discussion and voting.

The Company shall prepare the relevant materials for attending members' reference.

8. An attendance book shall be provided at every meeting for the attending independent directors to sign in for record.

The independent directors shall attend the meetings in person. If unable to attend in person, an independent director can appoint another independent director to attend on his/her behalf by proxy. Any independent director attending the meeting via video conference shall be deemed to have attended the meeting in person.

A proxy which specifies the scope of authorization shall be executed when an independent director appoints another independent director to attend the meetings on his/her behalf.

A resolution shall be adopted by a majority of all the Committee members. The result of voting shall be announced at the meeting and placed on record.

If for any reasonable reason that a meeting is unable to be convened, a resolution shall be adopted by over two-thirds of all Directors whereas independent directors shall still express their opinion on the items specified in Item 10, Paragraph 1 of Article 6.

An independent director can only act for one another independent director by proxy at one time.

9. The resolution of every Committee meeting shall be recorded in the meeting minutes. The meeting minutes shall accurately record the following items:

- i. The term, place, and time of the meeting;
- ii. The name of the chairperson;
- iii. The attendance situation of the independent directors, including the names and numbers of those who are present, on leave, and absent;
- iv. The names and titles of the other attendants;
- v. The name of the recorder;

- vi. Report items;
- vii. Discussion items: the voting method and the result of each proposed resolution; the summary of opinion, dissenting opinion or distention by the independent directors, experts, ad other personnel; the name, relation, explanation, reason and details of to or not to recuse from discussion of an independent director with conflict of interest on certain discussion item according to Paragraph 11 article 1 of this charter;
- viii. Special motions: the names of the persons proposing the special motions; the voting method and the result of each proposed resolution ; the summary of opinion, dissenting opinion or distention by the independent directors, experts, ad other personnel; and the name, relation, explanation, reason and details of to or not to recuse from discussion of an independent director with conflict of interest on certain discussion item according to Paragraph 11 article 1 of this charter;
- ix. Other items that shall be recorded.

The attendance book constitutes part of meeting minutes of the Committee and shall be retained for the duration of the existence of the Company.

The meeting minutes shall be signed and chopped by the chairperson and the recorder, and a copy of the minutes shall be distributed to each independent director within 20 days after the meeting and shall be retained during the existence of the Company.

The meeting minutes under the preceding paragraph may be produced and distributed in electronic form.

- 10. The meeting agenda shall be proposed by the convener. Other Committee members shall also be able to propose agenda for discussion.
- 11. An independent director of the Committee shall explain the material details of their conflict of interest and recuse himself/herself from participating in discussions and voting for the items that involve personal interest where such participation is likely to prejudice the interest of the Company, and shall not act on behalf of other independent directors to exercise their voting rights.

When a matter is unable to be resolved at a Committee meeting for the reason specified in the preceding paragraph, the fact shall be reported to the Board of Directors and such matter shall be resolved by the Board of Directors.

- 11-1. The process of a Committee meeting shall be fully video or audio taped and be retained for five years which can be done via electronic form.

If litigation occurs regarding any matter resolved by the Committee before the above retention period expires, the relevant recording files shall continue to be retained until the litigation is concluded.

The video files shall be deemed as part of meeting minutes if a meeting is conducted via video conference and retained for the duration of the existence of the Company.

12. The Committee thereof may, on behalf and at the cost of the Company, engage a legal counsel, accountant, or other professional to conduct a necessary audit or provide advice concerning the items specified in Article 6.
13. The Committee members shall exercise the due care of a good administrator and faithfully perform the duties specified in this Charter; the Committee members shall be accountable to the Board of Directors and shall submit their proposals to be resolved by the Board of Directors.
14. The Committee shall conduct periodic reviews of matters relating to the Charter and present the results for amendment by the Board of Directors.

The execution of tasks related to resolutions adopted by the Committee may be delegated to the convener or other Committee members for follow-up, with a written or verbal report to be presented to the Committee during the implementation period. When necessary, the matter shall be presented for ratification or a report made at the next meeting of the Committee.

15. The Charter, and any amendments hereto, shall adopted by the resolution of the Board of Directors.