

Modern Chinese Medicine Group Co., Ltd.

現代中藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1643)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

DEFINITIONS

1. For the purposes of these terms of reference (these “**Terms**”):

Articles means the articles of association of the Company.

Audit Committee or **Committee** means the audit committee of the Board established by the resolutions of the Board in accordance with clause 2 of these Terms.

Board means the board of directors of the Company.

Chief Financial Officer means the senior officer of the Company responsible for financial management as appointed by the Board from time to time.

Company means Modern Chinese Medicine Group Co., Ltd. 現代中藥集團有限公司.

Company Secretary means the company secretary of the Company.

Directors means the directors of the Company.

Group means the Company and its subsidiaries.

Listing Rules mean the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time).

Senior Management means the chief executive officer, the Chief Financial Officer and any other senior officers of the Company appointed by the Board from time to time; and any other employees of the Company as may be determined by the Company’s Remuneration Committee as part of senior management.

Shareholders means the shareholders of the Company.

Stock Exchange means The Stock Exchange of Hong Kong Limited.

CONSTITUTION

2. The Audit Committee was established by resolutions of the Board on 18 December 2020.

MEMBERSHIP

3. The members of the Audit Committee shall be appointed by the Board from amongst the non-executive Directors and shall consist of not less than three members, a majority of whom should be independent non-executive Directors and at least one of whom should be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules. The quorum of an Audit Committee meeting shall be any two members of the Audit Committee one of whom must be independent non-executive Director.
4. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of two years from the date of his/her ceasing:
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm, whichever is the later.
5. The chairman of the Audit Committee shall be appointed by the Board and must be an independent non-executive Director.
6. The appointment of the members of the Audit Committee may be revoked, replaced or additional members may be appointed to the Audit Committee by resolutions passed by the Board. An appointment of Audit Committee member shall be automatically revoked if such member ceases to be a member of the Board. For the avoidance of doubts, committee members may be removed from the Audit Committee by the Board at its sole and absolute discretion.

ATTENDANCE AT MEETINGS

7. The Chief Financial Officer of the Company and a representative of the external auditors shall normally attend meetings. However, at least once a year the Audit Committee shall meet with the external and the Chief Financial Officer without the executive Directors present.

FREQUENCY AND PROCEDURE OF MEETINGS

8. Unless otherwise stated herein, the meetings are governed by the provisions contained in the Articles for regulating the meetings and proceedings of Directors.
9. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.
10. The Company Secretary or his/her appointed delegate shall be the secretary of the Audit Committee.

11. An agenda and accompanying board papers should be sent in full to all Directors in a timely manner and at least three days before the intended date of a meeting of the Audit Committee (or other agreed period).
12. The Senior Management should be responsible for providing sufficient information to the Audit Committee in a timely manner to facilitate the making of informed decisions. Where more detailed and complete information is requested from the Senior Management, the respective Director shall make further inquiries if needed. The Board or individual Director(s) can contact the Senior Management individually and independently.
13. A resolution in writing signed by all the Committee members 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 Committee members.

ANNUAL GENERAL MEETING

14. The chairman of the Audit Committee shall attend the Company's annual general meeting and be prepared to respond to any Shareholder's questions on the Audit Committee's activities.
15. If the chairman of the Audit Committee is unable to attend an annual general meeting of the Company, he/she shall arrange for another member of the Audit Committee, or failing this, his/her duly appointed delegate, to attend in his/her place. Such person shall be prepared to respond to any Shareholder's questions on the Audit Committee's activities.
16. The Company's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

POWERS

17. The Audit Committee is authorized by the Board to investigate any activity within these Terms or otherwise affecting the integrity of the Company. The Committee may exercise the following powers:
 - (a) seeking any information it requires from any employee of the Group and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend Committee meetings and to supply information and address the questions raised by the Committee;
 - (b) monitoring whether the Group's management has, in the performance of their duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Listing Rules and other rules and regulations from time to time determined by the Board or a committee thereof);
 - (c) investigating any activity within these terms of reference and all suspected fraudulent acts involving the Group and request the management to make investigation and submit reports;
 - (d) reviewing the Group's internal control procedures and system;

- (e) making recommendations to the Board for the improvement of the Group's internal control procedures and system;
- (f) requesting the Board to dismiss any employees and/or to convene a shareholders' meeting (if necessary) for purposes of removing any Director if there is evidence showing that the relevant Director and/or employee has failed to discharge his/her duties properly;
- (g) requesting the Board to take all necessary actions, including convening an extraordinary general meeting, to replace and dismiss the auditors of the Group;
- (h) obtaining outside legal or other independent professional advice at the expenses of the Company on any matters within these terms of reference as it considers necessary and to secure the attendance of outsiders with relevant experience and expertise at its meetings, if it considers this necessary. The Audit Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any external auditors who advises the Audit Committee;
- (i) commissioning reports or surveys as are necessary to assist in the performance of its duties at the cost of the Company;
- (j) having access to sufficient resources in order to perform its duties;
- (k) reviewing annually these terms of reference and their effectiveness in the discharge of its duties and to make recommendation to the Board any changes it considers necessary; and
- (l) exercising such powers as the Committee may consider necessary and expedient so that their duties in these Terns can be properly discharged.

DUTIES

18. The Company should provide the Committee sufficient resources to perform its duties. The duties of the Audit Committee shall include:

Relationship with the Company's external auditors

- (a) making recommendation 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 to consider any questions of resignation or dismissal of that auditor;
- (b) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) developing and implementing policy on the engagement of an external auditor to supply non-audit services and report to the Board, identifying and making recommendations on any matters in respect of which it considers that action or improvement is needed;

- (d) discussing with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (e) discussing problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss (in the absence of Senior Management where necessary);

Review of financial information of the Company

- (f) monitoring integrity of financial statements, annual reports and accounts, interim reports 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 any requirements from the Stock Exchange, including but not limited to the Listing Rules and any legal requirements in relation to financial reporting;
 - (vii) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group and whether such connected transactions, if any, have been carried out in accordance with the terms of the agreement governing such transactions;
 - (viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosures give a fair view of the Group's financial conditions;
 - (ix) any significant or unusual items that are, or may need to be, reflected in such reports and accounts; and
 - (x) the cashflow position of the Group;and to provide advice and comments thereon to the Board;
- (g) In regard to (f) above:–
 - (i) liaising with the Board, Senior Management and the person appointed as the Company's qualified accountant or auditors;
 - (ii) meeting, at least twice a year, with the Company's auditors; and

- (iii) considering any significant or unusual items that are, or may need to be, reflected in such financial statements, reports and accounts and giving due consideration to any matters that have been raised by the Company's qualified accountant, staff responsible for the accounting and financial reporting function or auditors;
- (iv) discussing problems and reservations with the auditors arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);

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

- (h) reviewing the Company's financial controls and, unless expressly addressed by a separate Board risk committee or by the Board itself, reviewing the Company's risk management and internal control systems;
- (i) discussing the risk management and internal control system with the Senior Management and to ensure that the Senior Management has performed its duties in establishing and maintaining effective systems, including adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (j) considering major investigations findings on risk management and internal control matters as delegated by the Board or on its own initiative and Senior Management's response to those findings;
- (k) where an internal audit function exists, ensuring co-ordination between the internal and external auditors, ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness, monitoring the planning of internal audit processes and overseeing the result of the work of the internal audit function;
- (l) reviewing the Group's financial and accounting policies and practices;
- (m) reviewing the external auditor's management letter, any material queries raised by the auditor to Senior Management about accounting records, financial accounts or systems of control and Senior Management's response;
- (n) ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) conducting exit interviews with any Director or any personnel discharging the internal audit functions upon their resignation in order to ascertain the reasons for his/their departure;
- (p) preparing work reports for presentation to the Board and to prepare summary of work reports for inclusion in the Group's quarterly, interim and annual reports;
- (q) considering the appointment of any person to be a Committee member, auditors and accounting staff either to fill a casual vacancy or as an additional Committee member, auditors and accounting staff or dismissal of any of them;

- (r) reporting to the Board on the matters set out in these Terms;
- (s) reviewing arrangements employees of the Company can use, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (t) acting as the key representative body for overseeing the Company's relation with the external auditor;
- (u) establishing a whistle-blowing policy and system for employees of the Company 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;
- (v) doing any such things to enable the Board to discharge its duties conferred on it by the Board from time to time; and
- (w) considering and implementing other matters, as defined or assigned by the Board from time to time.

Oversight of the Company's corporate governance functions

- (x) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (y) reviewing and monitoring the training and continuous professional development of Directors and Senior Management;
- (z) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors;
- (aa) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board and report to the Board on matters;
- (bb) reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report;
- (cc) reviewing and monitoring the Company's compliance with the Company's whistle-blowing policy; and
- (dd) considering any other topics, as determined by the Board.

Oversight of the Company's continuing connected transactions

- (ee) The Audit Committee has the following functions to safeguard the annual review of the continuing connected transactions:
 - (i) meetings every six months to review the reports on continuing connected transactions;

- (ii) power to request further information with respect to our Group's continuing connected transactions to be provided by the Senior Management as it deems to be appropriate for its review;
- (iii) authority to appoint any financial or legal advisor as the Audit Committee considers necessary for its review;
- (iv) decision-making in relation to the continuance or discontinuance of any of our Group's continuing connected transactions in accordance with the results of its review;
- (v) the Audit Committee's approval being a condition precedent to the convening of a Board meeting to approve any new continuing connected transactions or the renewal of any continuing connected transactions, as the case may be;
- (vi) formation of its own opinion regarding the enforcement of the continuing connected transaction agreements and disclosure of such opinion in our Company's annual report for each financial year;
- (vii) initiation of legal proceedings against the respective connected persons in the event any of the connected transaction agreements has been materially breached;
- (viii) the power to require alterations, modifications or changes to the terms of the continuing connected transactions in whatever manner as our independent non-executive Directors see fit to ensure all connected transactions are carried out on an arm's length basis; and
- (ix) considering any other topics, as defined by the Board.

POST-AUDIT REVIEW ACTIVITIES

19. In connection with or following the completion of its review of the external audit and internal audit, the Audit Committee or its chairman may in their discretion meet with the external auditor, the Chief Financial Officer to discuss any changes required in the audit plans for future periods and any other appropriate matters regarding the audit process.

FAILURE TO REACH AN AGREEMENT REGARDING EXTERNAL AUDITORS

20. Where the Board has taken a different view from the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors, the Audit Committee shall submit a statement to the Company explaining its recommendation, which statement will be disclosed by the Company in the Corporate Governance Report in accordance with the Listing Rules.

REPORTING PROCEDURES

21. Full minutes of the Audit Committee's meetings should be kept by a duly appointed secretary of the meeting (who should normally be the Company Secretary or his/her appointed delegate). The minutes shall be available for inspection at any reasonable time on reasonable notice by any Director.
22. Minutes of meetings of the Audit Committee should record in sufficient detail the matters considered by the Audit Committee and decisions reached, including any concerns raised by the Directors, members or dissenting views expressed. Draft and final versions of minutes of such meetings should be sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after such meetings.
23. Without prejudice to the generality of the duties of the Audit Committee set out above, the Audit Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless there are legal or regulatory restrictions on it to do so.
24. The Audit Committee shall ensure that the Board as a whole and Directors individually have proper access to reports and other materials related to the Audit Committee's work (having regard to the Listing Rules requirement for separate and independent access for the Board and Directors respectively to the Senior Management). It shall also ensure that such materials are of a form and quality sufficient to enable the Board to make informed decisions on matters placed before it, and that Directors will receive a prompt a full response to their enquiries.

PROVISION OF TERMS OF REFERENCE

25. The Audit Committee should provide these Terms upon request and upload it to the Stock Exchange's website and the Company's website to explain the duties of the Audit Committee and the authority the Board granted to it.

APPROVAL OF DISCLOSURE STATEMENTS

26. The Audit Committee shall be responsible for approving all disclosure statements in relation to the Audit Committee, including but not limited to relevant disclosure statements in annual reports, interim reports and information uploaded on the Stock Exchange's website and the Company's website.

REVIEW OF TERMS

27. The Audit Committee shall review these Terms annually, and may consider and submit to the Board any proposed changes that the Audit Committee deems appropriate or advisable.

POWERS OF THE BOARD

28. The Board may, subject to compliance with the Articles and the Listing Rules (including the Corporate Governance Code set out in Appendix 14 to the Listing Rules or if adopted by the Company, the Company's own code of corporate governance practices), amend, supplement and revoke these terms of reference and any resolution passed by the Committee provided that no amendments or supplements to and revocation of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid if such terms of reference or resolution had not been amended, supplemented or revoked.

PUBLICATION OF THESE TERMS

29. The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the website of the Company and on the website of the Stock Exchange.