

## **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 REMUNERATION COMMITTEE**

#### **DEFINITIONS**

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

**Board** means the board of directors of the Company.

**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 members of the Company.

**Group** means the Company and its subsidiaries.

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

**Remuneration Committee** or **Committee** means the remuneration committee established by the resolution of the Board in accordance with clause 3 of these Terms.

**Senior Management** means the chief executive 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 determined by the Remuneration Committee.

**Shareholders** means the shareholders of the Company.

2. The word “remuneration”, as used in these Terms, includes without limitation any salaries, bonuses, allowances, benefits (in cash or in kind), pension arrangements, reimbursements, compensation payments (including any compensation payable for loss or termination of office or appointment), incentive payments and share options.

## **CONSTITUTION**

3. The Remuneration Committee was established by resolutions of the Board on 18 December 2020.

## **MEMBERSHIP**

4. The members of the Remuneration Committee shall be appointed by the Board from time to time from among the Directors and shall consist of not less than three members, a majority of whom shall be independent non-executive Directors. The quorum of a Remuneration Committee meeting shall be any two members of the Remuneration Committee one of whom must be an independent non-executive Director.
5. The chairman of the Remuneration Committee shall be an independent non-executive Director and shall be appointed by the Board.
6. Each member of the Remuneration Committee shall disclose to the Remuneration Committee:
  - (a) any personal financial interest (other than as a Shareholder of the Company) in any matter to be decided by the Remuneration Committee; or
  - (b) any potential conflict of interest arising from a cross-directorship.

Any such member shall abstain from voting on resolutions of the Remuneration Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions, and shall (if so required by the Board) resign from the Remuneration Committee.

## **FREQUENCY AND CONDUCT OF MEETINGS**

7. Unless otherwise stated herein, the meetings are governed by the provisions contained in the Company's articles of association for regulating the meeting and proceedings of Directors.
8. Meetings shall be held at least once a year. The chairman of the Remuneration Committee shall convene a meeting upon request by any member of the Remuneration Committee.
9. 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 Remuneration Committee (or other agreed period).
10. The Senior Management is obliged to supply the Remuneration Committee with adequate information in a timely manner, in order to enable it to make informed decisions. The information supplied must be complete and reliable. Where a Director requires more information than information provided voluntarily by the Senior Management, the relevant Director should make additional necessary enquiries. The Board and individual Directors shall have separate and independent access to the Senior Management.

11. The Company Secretary or his/her appointed delegate shall be the secretary of the Remuneration Committee.
12. 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 MEETINGS**

13. The chairman of the Remuneration Committee shall attend the Company's annual general meetings and be prepared to respond to any Shareholder's questions on the Remuneration Committee's activities.
14. If the chairman of the Remuneration Committee is unable to attend an annual general meeting of the Company, he/she shall arrange for another member of the Remuneration 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 Remuneration Committee's activities.

## **AUTHORITY**

15. The Remuneration Committee is authorized by the Board to discharge its duties within these Terms. It is authorized to seek any remuneration information it requires from the Directors and/or Senior Management and/or relevant parties of the Company who are directed to co-operate with the Remuneration Committee.
16. The Remuneration Committee is authorized by the Board to obtain external independent professional advice and to secure the attendance of outsiders with relevant experience and expertise, at the company's expense, if it considers this necessary. The Remuneration Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any external remuneration consultant who advises the Remuneration Committee.

## **DUTIES**

17. The Company should provide the Committee sufficient resources to perform its duties. The duties of the Remuneration Committee shall include:
  - (a) making recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
  - (b) reviewing and approving management's remuneration proposals with reference to the Board's goals and objectives;

- (c) being responsible for either:
  - (i) determining with delegated responsibility, the remuneration packages of individual Directors and Senior Management; or
  - (ii) making recommendations to the Board on the remuneration packages of individual Directors and Senior Management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (d) considering salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;
- (e) reviewing and approving the compensation payable to executive Directors and Senior Management for any loss or termination of office or appointment in order to ensure that such compensation is consistent with the contractual terms and is otherwise fair and not excessive;
- (f) reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct in order to ensure they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (g) ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration; and
- (h) reviewing the Group's policy on expense reimbursements for the Directors and Senior Management.

18. In carrying out its duties under these Terms, the Remuneration Committee should:

- (a) consult the chairman of the Board and/or the chief executive officer about their remuneration proposals for other executive Directors and Senior Management and have access to independent professional advice if necessary;
- (b) provide the packages needed to attract, retain and motivate executive Directors of the quality required, but avoid paying more than is necessary for this purpose;
- (c) judge where to position the Group relative to other companies. They should be aware what comparable companies are paying and should take account of relative performance;
- (d) be sensitive to market practice, including pay and employment conditions within the Group and elsewhere in the industry in which the Group operates, especially when determining annual salary increases;

- (e) ensure that the performance-related elements of remuneration form a significant proportion of the total remuneration package of executive Directors and Senior Management and are designed to align their interests with those of Shareholders and to give the Directors and Senior Management incentives to perform at the highest levels by reference to corporate goals and objectives resolved by the Board from time to time; and
  - (f) ensure that share options offered by the Company to its Directors or Senior Management (if any) are in accordance with Chapter 17 of the Listing Rules, or the employees incentive schemes are in compliance with applicable laws and regulations, as applicable.
19. Without prejudice to the generality of these Terms for the Remuneration Committee set out above, the Remuneration Committee shall:
- (a) operate, review or approve the Company's share option scheme or other incentives schemes as they apply to, and recommend to the general meeting of Shareholders, grants of options to be made to Directors and/or Senior Management. It shall recommend to the Board the total aggregate amount of any grants to employees (with the specific grants to individuals to be at the discretion of the Board) and make amendments to the terms of such schemes (subject to the provisions of the schemes relating to amendment);
  - (b) liaise with the trustee of any employee share option scheme or other incentives schemes which is created by the Company for the benefit of employees, Senior Management or Directors;
  - (c) review the terms of executive Directors' and Senior Management's service contracts from time to time; and
  - (d) advise the Board in relation to the preparation of the Board's remuneration report (if any) to shareholders.

## **REPORTING PROCEDURES**

20. Full minutes of the Remuneration Committee's meetings shall be kept by a duly appointed secretary of the meeting (who should normally be the Company Secretary or his/her appointed delegate). Once the minutes are signed, the secretary shall circulate the minutes and reports of the Committee to all members of the Board. The minutes shall be available for inspection at any reasonable time on reasonable notice by any Director.
21. Minutes of meetings of the Remuneration Committee shall record in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors, members or dissenting views expressed. Draft and final versions of minutes should be sent to all members of the Remuneration Committee for their comment and records respectively, in both cases within a reasonable time after such meetings.
22. Without prejudice to the generality of the duties of the Remuneration Committee set out in these Terms, the Remuneration 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.

## **PROVISION OF TERMS OF REFERENCE**

23. The Remuneration Committee shall make available these Terms on request and by inclusion on the Stock Exchange's website and the Company's website, thereby explaining its role and the authority delegated to it by the Board.

## **APPROVAL OF DISCLOSURE STATEMENTS**

24. The Remuneration Committee shall be responsible for approving all disclosure statements in relation to the Remuneration 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**

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

## **POWERS OF THE BOARD**

26. 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**

27. 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.