



Shaanxi Micot Pharmaceutical Technology Co., Ltd.

陝西麥科奧特醫藥科技股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(“Company”)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

In accordance with The Company Law of the People's Republic of China (the “**Company Law**”), the code provisions of the Corporate Governance Code issued by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), other laws and regulations, and the relevant provisions of the China Securities Regulatory Commission (the “**CSRC**”), the Company is required to establish an Audit Committee, whose terms of reference (the “**Terms of Reference**”) are set out in and adopted by this document.

1. Organisation

To enhance the corporate governance of Shaanxi Micot Pharmaceutical Technology Co., Ltd. (the “**Company**”), regulate the procedural rules of the Audit Committee of the Board of Directors, and fully protect the legitimate rights and interests of the Company and its shareholders, the Company hereby establishes an Audit Committee of the Board of Directors (the “**Committee**”).

2. Objectives

The main objectives of the Committee are to be responsible for the relationship with the Company's Auditor, review the Company's financial information, oversee the Company's financial reporting system and internal control procedures, and exercise the powers of the Board of Supervisors as stipulated in the Company Law. The Committee shall be responsible to the Board of Directors.

3. Members of the Committee

3.1 Members of the Committee (the “**Members**”) shall be appointed from the directors of the Company, with a minimum of three members, all of whom shall be non-executive directors and a majority of whom shall be independent non-executive directors under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), and at least one of whom shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

- 3.2 The term of office of the Committee shall be consistent with that of the Board of Directors. Members are eligible for re-election and re-appointment, but the consecutive term of office for independent director members shall be subject to the period stipulated in the Listing Rules.

If a Member ceases to hold the office of a director, he/she will automatically cease to be a Member, and the Board of Directors shall appoint a new member to fill the vacancy. If the resignation of a Member results in the number of Committee members falling below the statutory minimum, or in the absence of an accounting professional, the original Member shall continue to perform his/her duties until a new Member takes office.

- 3.3 The chairman of the Committee shall be appointed by the Board of Directors and must be an accounting professional among the independent non-executive directors.

- 3.4 A former partner of the Company's current auditing firm shall be prohibited from acting as a Member for a period of two years from the later of the date of:

- (a) his/her ceasing to be a partner of the auditing firm; or
- (b) his/her ceasing to have any financial interest in the auditing firm.

- 3.5 Members shall possess the professional knowledge, work experience, and good professional ethics required to be competent in their duties, ensure sufficient time and energy to perform the Committee's duties, be diligent and responsible, and effectively supervise and evaluate the Company's internal and external audit work, so as to promote the establishment of effective internal controls and the provision of true, accurate, and complete financial reports.

- 3.6 Members shall continuously strengthen their learning and training in areas such as law, accounting, and regulatory policies to constantly improve their ability to perform their duties.

4. Secretary

Unless otherwise appointed by the Committee, the secretary of the Committee shall be the company secretary of the Company; if there is no company secretary, the secretary to the Board of Directors of the Company shall serve as such; if there is no secretary to the Board of Directors, any other person nominated by any Member and approved by the Committee shall serve as the secretary of the Committee.

5. Powers and Authority

- 5.1 The Committee is authorised to request any information it requires from any employee of the Company, and all employees shall be directed to cooperate with any request made by the Committee.
- 5.2 The Board of Directors authorises the Committee to seek external legal or other independent professional advice; and to invite outsiders with relevant experience and expertise to attend meetings if necessary.
- 5.3 The Board of Directors authorises the Committee to review any arrangements that may give rise to potential improprieties in financial reporting, internal control or other matters.
- 5.4 The Committee shall be provided with sufficient resources to perform its duties. Expenses necessary for the Members to exercise their powers and functions shall be borne by the Company.

6. Responsibilities

The duties of the Committee are as follows:

6.1 Relationship with the Company's Auditor

- (a) Primarily responsible for making recommendations to the Board of Directors on the appointment, re-appointment and removal of the Company's external Auditor, approving the remuneration and terms of engagement of the Company's external Auditor, and handling any questions of resignation or dismissal of that Auditor;
- (b) To review and monitor the independence and objectivity of the Company's external Auditor and the effectiveness of the audit process in accordance with applicable standards. The Committee shall, before the audit work commences, discuss with the Auditor the nature and scope of the audit and the relevant reporting responsibilities. Where more than one audit firm is involved, the Committee shall ensure coordination between them;
- (c) To develop and implement policy on the engagement of the Company's external Auditor to supply non-audit services. For the purpose of this provision, an external Auditor shall include any entity under the same control, ownership or management as the company responsible for the audit, or any entity that a reasonable and informed third party, having knowledge of all relevant information, would reasonably conclude as being part of the national or international business of the company responsible for the audit. The Committee shall report to the Board of Directors and make recommendations on any matters that require action or improvement;

6.2 Reviewing the Company's financial information

- (d) To monitor the integrity of the Company's financial statements and its annual report and accounts, half-year report and (if prepared for publication) quarterly report, and to review the significant financial reporting judgements contained therein. Before submitting the relevant reports to the Board of Directors, the Committee shall pay particular attention to reviewing the following matters:
 - (i) any changes in accounting policies and practices;
 - (ii) matters involving significant judgement;
 - (iii) material adjustments arising from the audit;
 - (iv) the going concern assumption and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (e) In relation to (d) above:
 - (i) Members of the Committee shall liaise with the Board of Directors and the senior management of the Company. The Committee shall meet with the Company's Auditor at least twice a year; and
 - (ii) The Committee shall consider any significant or unusual items that are, or may need to be, reflected in the report and accounts and shall give due consideration to any matters raised by the Company's accounting and finance staff or the Auditor;
- (f) To discuss with the Company's external Auditor problems and questions arising from the interim and final audits, and any other matters the Auditor may wish to discuss (in the absence of the Company's management, if necessary);
- (g) To review the external Auditor's management letter and management's response;
- (h) To review any statement on the Company's internal control system included in the Company's annual report before it is submitted to the Board of Directors for approval;

6.3 Overseeing the Company's financial reporting system, risk management and internal control systems

- (i) To review the Company's financial reporting, financial controls, and (unless there is a separate risk committee of the Board of Directors or the Board of Directors itself will expressly deal with it) to review the Company's risk management and internal control systems;
- (j) To discuss the risk management and internal control systems with the Company's management to ensure that management has fulfilled its duty to establish effective systems; The discussion should cover the adequacy of the Company's resources, staff qualifications and experience in its accounting and financial reporting functions, as well as the adequacy of staff training programmes and the relevant budget;
- (k) To study, on its own initiative or as delegated by the Board of Directors, the significant findings of investigations into matters concerning risk management and internal control and the response of the Company's management to such findings;
- (l) Where the Company has an internal audit department, to ensure that the work of the Company's internal and external Auditors is coordinated; and to ensure that the Company's internal audit department has sufficient resources and an appropriate standing within the Company to operate; and to review and monitor its effectiveness;
- (m) To review the Company's financial and accounting policies and practices;
- (n) To review the Auditor's management letter from the Company's external Auditor to management, any significant questions raised by the Auditor to management regarding accounting records, financial accounts or control systems, and management's response;
- (o) To ensure a timely response by the Board of Directors to the issues raised in the Auditor's management letter from the Company's external Auditor to the Company's management;
- (p) To ensure compliance with legislation and regulations relevant to the Company;
- (q) To report to the Board of Directors on matters within these terms of reference;
- (r) To study other topics as defined by the Board of Directors;

6.4 Exercising the powers of the Board of Supervisors as stipulated in the Company Law

- (s) To inspect the Company's finances;
- (t) To supervise the conduct of directors and senior management in the performance of their duties;
- (u) To require directors and senior management to rectify their conduct when it harms the interests of the Company;
- (v) To propose the convening of an extraordinary meeting of the Board of Directors;
- (w) To propose the convening of an extraordinary shareholders' meeting, and to convene and preside over the shareholders' meeting when the Board of Directors fails to perform its legal duties to convene and preside over the shareholders' meeting;
- (x) To submit proposals to shareholders' meetings;
- (y) To accept shareholders' requests to initiate legal proceedings against directors (other than members of the Audit Committee) and senior management who have caused losses to the Company by violating laws, administrative regulations or the articles of association in the performance of their duties;

6.5 Other

- (z) To review the Company's arrangements for its employees to remain alert to possible improprieties in financial reporting, internal control, risk management or other matters, and to ensure that proper arrangements are in place for the Company to conduct a fair and independent investigation and take appropriate action on such matters;
- (aa) To act as the primary representative between the Company and the Company's external Auditor, responsible for monitoring the relationship between the two;
- (ab) To handle any other matters as delegated by the Board of Directors to the Committee in order to perform its powers and functions;
- (ac) To comply with the requirements, guidelines and rules contained from time to time in the Company's Articles of Association or the Listing Rules or any applicable law; and
- (ad) To perform the matters set out in Code Provision C.3 of Appendix 14 to the Listing Rules and to report to the Board of Directors.

7. Committee Meetings

7.1 Frequency of Meetings

The Committee shall meet at least once every quarter. A meeting may be requested by two or more members, or by the Company's external Auditor if it deems it necessary. In addition, the Chairman of the Committee may convene additional meetings at his discretion.

7.2 Notice of Meetings

Unless all members unanimously agree to waive notice, the secretary of the Committee shall give all members at least three days' notice before the date of a meeting and circulate the agenda for the meeting to the members.

7.3 Quorum

A meeting of the Committee shall be valid only if at least two-thirds of the members are present.

7.4 Mode of Meetings

Meetings may be held in person, by telephone or by video conference. Members may attend meetings by telephone or other similar means of communication provided that all Members participating in the meeting are able to hear and speak to each other. With the unanimous consent of all members, the Committee may also pass resolutions by way of written resolution.

The Chairman of the Committee is responsible for convening and presiding over Committee meetings. If the Chairman of the Committee is unable or refuses to perform his duties, an independent non-executive director shall be elected by more than half of the members to preside over the meeting.

Members shall attend Committee meetings in person and express clear opinions on the matters under deliberation. If a member is unable to attend a meeting in person for any reason, they shall review the meeting materials in advance, form a clear opinion, record that opinion in a proxy form, and appoint another member in writing as their proxy.

A member may act as a proxy for no more than one other member, and the proxy form must specify the scope and duration of the authorisation. If an independent non-executive director is unable to attend a meeting for any reason, they shall appoint another independent non-executive director on the Committee as their proxy.

7.5 Resolutions

Each member shall have one vote, and any resolution shall be valid only if passed by a majority of the votes of the members present at the meeting. A resolution signed in writing by all members of the Committee, whether or not a meeting is held, shall be valid and legally effective. Any such resolution may be contained in a single document or may consist of several documents in like form.

7.6 Attendance at Meetings

The Committee may invite any executive director, external adviser or other person to attend its meetings, but such executive director, adviser or person shall not have the right to vote at the meeting.

7.7 Minutes of Meetings

Full minutes of meetings shall be kept by the secretary of the Committee. The minutes shall record in detail the matters considered and decisions reached by the members at the meeting, including any concerns raised or dissenting opinions expressed by the members. The members present at the meeting and the person taking the minutes shall sign the minutes of the meeting.

7.8 Attendance at Meetings

The Company's Chief Financial Officer, the head of the internal audit department and a representative of the external Auditor shall normally attend Committee meetings. However, the Committee shall meet at least once a year with the Company's external and internal Auditors in the absence of the Company's management.

8. Reporting

The Committee shall report to the Board of Directors on a regular basis. The Chairman of the Committee or another member authorised by him to preside over a Committee meeting shall report to the Board of Directors after each Committee meeting. The Committee shall report to the Board of Directors at least annually on the work and results of the Committee during the year.

9. Provision and Updating of Terms of Reference

These terms of reference shall be updated and amended as necessary in light of circumstances and changes in Hong Kong's regulatory requirements (such as the Listing Rules). These terms of reference shall be made available to the public by publication on the websites of the Company and the Stock Exchange.

10. Supplementary Provisions

10.1 Matters not covered by these terms of reference shall be dealt with in accordance with the relevant laws, regulations, rules, regulatory requirements and the Articles of Association.

10.2 The right to interpret these terms of reference rests with the Board of Directors.