Sichuan Neautus Traditional Chinese Medicine Co., Ltd.
四川新荷花中藥飲片股份有限公司

Terms of Reference and Rules of Procedure of the Audit Committee

Chapter I General Provisions

Article 1 To establish and standardize the audit systems and procedures of Sichuan Neautus Traditional Chinese Medicine Co., Ltd. (the "**Company**"), strengthen the decision-making function of the Board of Directors (the "**Board**"), ensure the Board's effective supervision of management and improve the Company's corporate governance structure, the Company has established the Audit Committee (the "**Committee**") under the Board of Directors in accordance with the Company Law of the People's Republic of China (the "**Company Law**"), the relevant laws, administrative regulations and normative documents (collectively, the "**National Laws and Regulations**"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**") and the Articles of Association of Sichuan Neautus Traditional Chinese Medicine Co., Ltd. (the "**Articles of Association**"), and has formulated these Terms of Reference and Rules of Procedure of the Audit Committee of Sichuan Neautus Traditional Chinese Medicine Co., Ltd. (the "**Rules**").

Article 2 The Committee is a specialized working body established under the Board, primarily responsible for communication, supervision and review relating to the Company's internal and external audits, as well as the Company's risk management and internal controls. The Committee is accountable to and reports to the Board.

Article 3 These Rules apply to the Committee and the relevant persons and departments referred to in these Rules.

Chapter II Composition of the Committee

Article 4 The Committee shall comprise not less than three Directors and shall consist solely of non-executive Directors, with independent non-executive Directors constituting a majority. Committee members shall possess professional knowledge in finance, law or other relevant areas and business experience appropriate to their responsibilities. At least one member shall possess an appropriate professional qualification or appropriate accounting or related financial management expertise and shall satisfy the qualification requirements for an audit committee financial expert under the Hong Kong Listing Rules. An employee representative Director among the Company's Board may serve as a member of the Audit Committee.

The Board shall regularly assess the independence and performance of the Committee members and, where necessary, replace members who are unsuitable to continue serving. A former partner of the Company's current external auditor may not serve as a Committee member for two years from the later of the date on which the former partner ceases to be a partner of, or ceases to have a financial interest in, the Company's current external auditor.

Article 5 Committee members shall be nominated by the Chairman of the Board, more than half of the independent non-executive Directors or more than one-third of all Directors, elected by the Board and approved by more than half of all Directors.

Article 6 The Committee shall have one chairperson (the "**Chairperson**"), who shall be an independent non-executive Director and shall be responsible for presiding over the Committee's work. The Chairperson shall be nominated by the Chairman of the Board of the Company and appointed upon consideration and approval by the Board. The Chairperson shall possess appropriate accounting or related financial accounting expertise.

Article 7 The term of office of the Committee shall be the same as that of the current Board, and the term of office of each member shall be the same as that of the relevant Director. Upon expiry of a member's term of office, the member may be re-elected. If a Committee member ceases to serve as a Director of the Company during the member's term of office, or if a member required to have independent non-executive Director status no longer satisfies the independence requirements under the Hong Kong Listing Rules, the member's qualification as a Committee member shall automatically cease, and the Board shall fill the vacancy in accordance with the foregoing provisions.

Article 8 A Committee member may resign from the Committee before expiry of the member's term by submitting a resignation report to the Board, which shall provide the necessary explanation of the reasons for resignation and matters requiring the Board's attention. If the number of Committee members falls below the minimum required under these Rules, a resigning member shall continue to perform the relevant duties until the replacement member appointed by the Board takes office.

Article 9 Committee members may be adjusted during their term upon the proposal of the Chairman of the Board and consideration and approval by the Board.

Article 10 If the composition of the Committee does not satisfy these Rules, the Board shall immediately publish an announcement in accordance with the Hong Kong Listing Rules explaining the details and reasons for the non-compliance, and shall rectify the composition in accordance with these Rules within three months from the date on which the relevant requirement ceased to be satisfied. The term of office of a replacement member shall expire when that member's term as a Director ends.

Article 11 With the coordination of the office of the Board, the Company's audit department shall serve as the working body of the Committee, provide support and services for the Committee's work, and undertake relevant work assigned by the Committee.

Chapter III Duties of the Committee and its Members

Article 12 The Committee shall, on behalf of the Board, independently assess and supervise the compliance, legality and effectiveness of the Company's business operations, and shall primarily undertake the following duties:

(1) to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, approve the remuneration and terms of engagement of the external auditor, and address any questions concerning the resignation or dismissal of the external auditor;

(2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; the Committee shall discuss with the external auditor the nature, scope and approach of the audit and reporting obligations before the audit commences.

To investigate the independence of the external auditor, the Committee shall complete the following work:

1. to examine the relationship between the Company and the audit firm, including non-audit services;

2. to obtain annually from the audit firm information concerning the audit firm's compliance with requirements for maintaining its independence and monitoring such compliance, including requirements relating to the rotation of audit partners and staff;

3. to meet with the external auditor at least once a year without the presence of management to discuss audit fees, any issues arising from the audit and any other matters that the audit firm wishes to raise;

(3) to establish and implement a policy on the engagement of the external auditor to provide non-audit services. For these purposes, the external auditor includes any entity that is under common control, ownership or management with the entity responsible for the audit, or any entity that a reasonably informed third party would reasonably conclude forms part of the domestic or international business of the entity responsible for the audit. The Committee shall report to the Board, identify matters requiring action or improvement and make recommendations;

(4) to monitor the integrity of the Company's financial statements and the Company's annual report and accounts, interim report and quarterly reports (if any), and to review significant opinions relating to financial reporting contained in the statements and reports, with particular focus on whether there are any fraud, irregularities or material misstatements in relation to the financial statements and reports. Before the annual report and accounts, interim report and quarterly reports are submitted to the Board, the Committee shall particularly review the following matters:

1. any changes in accounting policies and practices;

2. areas involving significant judgment;

3. significant adjustments resulting from the audit;

4. the going concern assumption and any qualified opinions;

5. compliance with accounting standards;

6. compliance with the Hong Kong Listing Rules and other legal requirements relating to financial reporting.

(5) in relation to paragraph (4) of this Article:

1. Committee members shall liaise with the Board and the Company's senior management. The Committee shall meet with the Company's external auditor at least twice each year;

2. the Committee shall consider any significant or unusual matters that are, or need to be, reflected in the reports and accounts and shall give due consideration to any matters raised by the Company's accounting and financial reporting staff, compliance officers or auditor;

(6) to monitor the Company's financial controls, internal controls and risk management systems;

(7) to discuss the risk management and internal control systems with management to ensure that management has performed their duty to establish effective risk management and internal control systems, including considering whether the resources, staff qualifications and experience of the Company in its accounting and financial reporting functions are adequate, and whether the training programmes and related budgets received by employees are sufficient;

(8) to consider, on its own initiative or at the Board's delegation, major investigation findings relating to risk management and internal control matters and management's response to those findings;

(9) to monitor the Company's internal audit system, ensure that it has adequate resources and an appropriate standing within the Company, and review and monitor its effectiveness;

(10) to promote communication between the internal audit department and the external auditor and ensure coordination of the work of the internal and external auditors;

(11) to review the Company's financial and accounting policies and practices;

(12) to review the management letter issued by the external auditor to management, any material queries raised by the external auditor with management in respect of the accounting records, financial accounts or control systems, and management's response;

(13) to ensure that the Board provides a timely response to the matters raised in the management letter issued by the external auditor to management;

(14) to monitor the arrangements established by the Company under which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal controls or other matters. The Committee shall ensure that appropriate arrangements are in place for the Company to conduct a fair and independent investigation of such matters and take appropriate follow-up action;

(15) to act as the principal representative of the Company in dealings with the external auditor and monitor the relationship between them;

(16) to consider the Company's risk management strategies and major risk management solutions;

(17) to be responsible for confirming the list of connected persons of the Company (as defined in the Hong Kong Listing Rules), conducting an overall review of connected transactions and periodically reviewing the overall connected transactions of the Company, including verifying the decision-making and performance of all connected transactions of the Company within ten days after the end of each half-year and reviewing the overall connected transactions of the Company within 30 days after the end of each half-year, and reporting to the Board after forming a review opinion;

(18) to assess and determine the Company's environmental, social and governance ("**ESG**") risks and ensure that the Company establishes appropriate and effective ESG risk and internal control systems;

(19) to report to the Board on the matters set out in these Rules;

(20) to exercise the functions and powers of the Board of Supervisors as stipulated by the Company Law;

(21) to handle other matters authorized by the Board of the Company and other matters covered by the National Laws and Regulations;

(22) to perform other relevant duties and exercise other relevant powers of the Committee as required under the Hong Kong Listing Rules as amended from time to time.

Article 13 The duties of the Chairperson are to:

(1) convene and preside over Committee meetings;

(2) supervise and inspect the work of the Committee and the implementation of Committee resolutions;

(3) sign documents relating to the Committee;

(4) report to the Board on the Committee's work;

(5) attend the Company's annual general meeting and answer questions raised by shareholders concerning matters relating to the Committee's duties. If the Chairperson is unable to attend the annual general meeting, another member or a duly appointed representative shall attend;

(6) perform other duties required or delegated under the National Laws and Regulations, the Hong Kong Listing Rules, these Rules and by the Board.

Article 14 Committee members shall primarily undertake the following duties:

(1) attend Committee meetings on time, express opinions on matters discussed at the meetings and exercise voting rights;

(2) propose matters for discussion at Committee meetings;

(3) for the performance of their duties, attend or observe relevant meetings of the Company, conduct investigations and research, and obtain required reports, documents, materials and other relevant information;

(4) fully understand the duties of the Committee and their own duties as Committee members, familiarize themselves with the Company's operation and management, business activities and development relating to their duties, and ensure their ability to perform those duties;

(5) ensure sufficient working time and attention to perform their duties;

(6) exercise other powers granted under the National Laws and Regulations, the Hong Kong Listing Rules, these Rules and by the Board.

Chapter IV Committee Meetings

Article 15 Committee meetings are divided into regular meetings and ad hoc meetings.

Article 16 Regular meetings shall be held at least twice a year, and all members shall be notified in writing at least three days before the meeting. One of the regular meetings shall be held before the Board reviews the annual report each year.

Article 17 The Committee shall convene ad hoc meetings as necessary. In any of the following circumstances, the Chairperson shall issue a notice convening a meeting within three days after the relevant circumstance occurs:

(1) the Board considers it necessary;

(2) the Chairperson considers it necessary;

(3) two or more Committee members propose it.

The Company's external auditor may request that an ad hoc meeting be held where it considers this necessary.

Article 18 The audit department shall be responsible for delivering the meeting notice in writing to each member and each relevant person invited to attend the meeting at least three days before the meeting, except where the obligation to give prior notice may be waived in special circumstances provided that the meeting chairperson shall explain this at the meeting. The meeting notice shall include the method, time, venue, duration and agenda of the meeting, the time when the notice was issued, the meeting contact person and contact details, and relevant information.

The Company's audit, finance and legal departments and the office of the Board shall prepare and provide the relevant materials required for the matters to be considered at the meeting and shall liaise with the relevant departments, including relevant Company experts or external experts, scholars and intermediaries engaged by the Committee during its proceedings.

Article 19 Upon receiving a meeting notice, Committee members shall promptly confirm it in an appropriate manner and provide the relevant information, including but not limited to whether they will attend the meeting and their travel arrangements.

Article 20 Committee members shall attend meetings in person. If a member is unable to attend in person for any reason, the member may submit a signed power of attorney authorizing another Committee member to attend and express opinions on the member's behalf. The power of attorney shall specify the scope and duration of the authorization. A member may authorize only one other member to exercise voting rights on the member's behalf at each meeting. An authorization of two or more persons to exercise voting rights on the member's behalf shall be invalid. In addition, no member may concurrently accept authorizations from two or more other members.

A member attending a meeting on behalf of another member shall exercise rights within the scope of the authorization. A member who neither attends a Committee meeting in person nor authorizes another Committee member to exercise rights on the member's behalf, and who has not submitted written opinions before the meeting, shall be deemed to have waived those rights.

A member who is unable to attend a meeting in person may also exercise his or her rights by submitting written opinions on the matters under consideration, provided that such written opinions shall be submitted to the audit department no later than the commencement of the meeting.

Article 21 A Committee member who fails to attend two consecutive Committee meetings in person, without authorizing another Committee member and without submitting written opinions before the meeting, or who attends fewer than three-quarters of all Committee meetings in person within one year, shall be deemed unable to perform the Committee member's duties, and the Board may adjust the Committee membership in accordance with these Rules.

Article 22 A Committee meeting may be held only if more than two-thirds of the members are present. The meeting shall be presided over by the Chairperson. If the Chairperson is unable to attend, the Chairperson may authorize another Committee member to preside. If the Chairperson neither performs the duties nor designates another member to perform them, any member may report the circumstances to the Board, and the Board shall designate an independent non-executive Director who is a Committee member to perform the duties of the Committee Chairperson.

Chapter V Rules of Procedure

Article 23 Each Committee member shall have one vote. A resolution shall be passed by more than half of all Committee members. If a valid resolution cannot be formed because members are required to abstain, the relevant matter shall be considered directly by the Board.

Article 24 In principle, Committee meetings shall be held in person or by video or telephone conference. If an ad hoc meeting cannot be held in person or by video or telephone conference due to an emergency, force majeure or other special reason, it may be held by written communication. Where written communication is used, Committee members shall submit written opinions on the matters under consideration to the Board within the period specified in the meeting notice.

Article 25 Committee resolutions shall be voted on by a show of hands or by poll. If a member is unable to sign a resolution in real time during a telephone or video conference, the member may first express an opinion orally and shall complete the written signing formalities as soon as possible thereafter. The subsequent written signature must be consistent with the oral opinion expressed at the meeting.

Article 26 The Committee shall study and discuss the matters under consideration at its meetings. Committee members shall, based on their own judgment, express their opinions clearly, independently and fully. Any disagreement shall be recorded in the meeting minutes submitted to the Board.

Article 27 The Committee may invite the Company's Directors, relevant senior management, relevant Company experts or external experts, scholars, intermediaries and other relevant persons to attend meetings. Persons attending meetings shall provide explanations and clarifications at the request of Committee members.

Article 28 Where the Committee considers it necessary, it may, with the approval of the Board, engage external professional persons or institutions to provide professional advice, and the reasonable expenses incurred shall be borne by the Company.

Article 29 When a matter under consideration by the Committee involves a conflict of interest for a Committee member, that member shall abstain.

Article 30 All persons attending a meeting shall keep confidential the matters considered at the meeting and may not disclose relevant information without authorization.

Chapter VI Committee Meeting Records and Minutes

Article 31 Meeting records shall be prepared for Committee meetings. The meeting records shall be prepared by the audit department and shall include the following:

(1) the meeting number, method, date, venue and name of the chairperson;

(2) details of attendance, absence and attendance by authorization;

(3) the names and positions of persons attending the meeting;

(4) the meeting agenda;

(5) the key points of the speeches made by Committee members and relevant attendees;

(6) the name of the person recording the record;

(7) where applicable, a statement in the meeting record or resolution that a Committee member with a conflict of interest abstained from voting.

Committee members attending the meeting shall sign the Committee meeting record. The meeting record shall be sent to all Committee members within a reasonable time after the meeting for their comments.

Article 32 After a Committee meeting, the audit department shall prepare the Committee meeting minutes based on the discussions at the meeting.

In addition to being submitted to the Board, the meeting minutes shall be sent to the Committee members, the secretary to the Board, and the Company's audit, finance and legal departments and relevant departments and persons.

Article 33 The Committee meeting records, meeting minutes, powers of attorney, written opinions of members and other meeting materials shall be kept by the office of the Board in accordance with the Company's relevant records management system.

Chapter VII Supplementary Provisions

Article 34 Unless otherwise specified, terms used in these Rules shall have the same meanings as those terms have in the Articles of Association.

Article 35 In these Rules, the terms "or more" and "within" are inclusive of the stated figure, while the term "more than" is exclusive of the stated figure.

Article 36 Matters not covered by these Rules, or matters that conflict with laws, administrative regulations, normative documents, relevant regulatory rules of the place where the Company's shares are listed or the Articles of Association as amended through lawful procedures after these Rules take effect, shall be dealt with in accordance with the relevant national laws, administrative regulations, normative documents, relevant regulatory rules of the place where the Company's shares are listed and the Articles of Association, and these Rules shall be amended promptly.

Article 37 The right to interpret and amend these Rules belongs to the Board.

Article 38 These Rules shall take effect and be implemented after approval by the Board, with effect from the date on which the Company is first listed on The Stock Exchange of Hong Kong Limited.

Article 39 If these Rules are available in both Chinese and English and there is any inconsistency between the Chinese and English versions, the Chinese version shall prevail.