

## **RM GROUP HOLDINGS LIMITED**

御藥堂集團控股有限公司

(the “Company”)

### **AUDIT COMMITTEE - TERMS OF REFERENCE**

Approved by the board of directors of the Company (the “Board”) on 24 September 2013

#### **1. Constitution**

The Board established the Committee with the membership, authority and duties described below. This should be in accordance with Articles of Association of the Company, the Companies Ordinance (Chapter 32 of the laws of Hong Kong), the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) from time to time in force and any other applicable rules and regulations.

#### **2. Membership**

- 2.1 The Committee shall be appointed by the Board from time to time from amongst the non-executive directors of the Company and shall consist of not fewer than three members, a majority of whom should be independent non-executive directors. At least one of the members shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise (as required under rule 5.05(2) of the GEM Listing Rules). All of the members shall be appointed by the Board.
- 2.2 A former partner of the Company’s existing auditing firm from time to time may not act as a member of the Committee for a period of one year commencing on the date of his ceasing (a) to be a partner of the firm or (b) to have any financial interest in the firm, whichever is the later.
- 2.3 The Chairman of the Committee shall be appointed by the board and should be an independent non-executive director.

### **3. Meetings**

#### **3.1 Attendance at Meetings**

- (i) The staff who is responsible for the accounting and financial reporting function of the Company and its subsidiaries (the “Group”), the Group’s Internal Auditor, where an internal audit function exists in the Company, and a representative of the external auditors shall normally attend meetings. The Committee may hold separate private meeting(s) with the internal auditor and/or the external auditor, with no Executive Directors or senior management present whenever they think fit and appropriate.
- (ii) The Company Secretary shall be the secretary of the Committee and in the absence of the Company Secretary, a member of the Committee or his/her nominee shall act as the secretary.

#### **3.2 Frequency and proceedings of meetings**

- (i) The Committee shall meet at least twice a year. The external auditors or any members of the Committee may request a meeting with or without the presence of management if they consider that one is necessary. However, the Committee should meet with the external auditors at minimum twice a year.
- (ii) A quorum necessary for meetings of the Committee shall be two members of the Committee. Any members of the Committee or other attendees may participate in a meeting of the Committee by means of a telephone conference or similar communication equipment by means of which all persons participating in the meeting are capable of hearing each other, and a majority vote of the members present shall represent an act of the Committee.

#### **3.3 Notice of meetings**

- (i) Meetings of the Committee shall be called by its Chairman or at the request of the Board.
- (ii) Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be issued to each member of the Committee, the Chief Executive Officer of the Company, the Chief Financial Officer of the Company and any other person required to attend, no fewer than five working days prior to the date of the meeting.

#### **4. Authority**

- 4.1 The Committee shall discharge its authority in accordance with procedures and rules as set out by the Board essentially to maintain financial and accounting standards and integrity, and to investigate any activity within its terms of reference. In the discharge of its duties as set out in these terms, the Committee is authorised to seek any information it requires from any employee of the Company and all such employees are directed to co-operate with any request made by the Committee.
- 4.2 The Committee is authorised by the Board, at the Company's expense, to appoint legal or other independent professional advisers with relevant experience and expertise to assist the Committee in the discharge of its duties set out in these terms, and to secure the attendance of such professional advisers at its meetings if it considers it necessary.
- 4.3 The Committee is authorised to require management to provide it with such resources as may be necessary for it to discharge its duties as set out in these terms.

#### **5. Responsibility**

- 5.1 The Committee is to serve as a focal point for communication between other directors, the external auditor and the internal auditor, where an internal audit function exists in the Company, as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the board determines from time to time.
- 5.2 The Committee is to assist the board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group, and as to the adequacy of the external and internal audits.

#### **6. Duties, powers and functions**

The Committee is to:

- (a) be responsible for 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 any questions of resignation or dismissal of that auditor;

- (b) review with the group's management, external auditor and internal auditor, where an internal audit function exists in the Company, the adequacy of the group's policies and procedures regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the directors to be included in the annual accounts prior to endorsement by the board;
- (c) have familiarity with the accounting and financial reporting principles and practices applied by the group in preparing its financial statements;
- (d) before audit commencement, review external auditor's independence, objectivity, effectiveness of the audit process and the nature and scope of the external audit, including the engagement letter, and the reporting obligations. The Committee should understand the factors considered by the external auditor in determining their audit scope. The external audit fees are to be negotiated by management, and presented to the Committee for review and approval annually;
- (e) review the annual, quarterly and interim financial reports prior to approval by the board, with particular focus on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from the audit;
  - (iv) the going concern assumption and any qualifications;
  - (v) compliance with accounting and auditing standards; and
  - (vi) compliance with the listing requirements on the GEM of The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;
- (f) with regard to (e) above:-
  - (i) members of the Committee must liaise with the board and senior management, and the Committee must meet, at least twice a year, with the external auditor; and
  - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditor;
- (g) review the draft representation letter prior to approval by the board;

- (h) evaluate the cooperation received by the external auditor, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditor to the group's needs; inquire of the external auditor as to whether there have been any disagreements with management which if not satisfactorily resolved would result in the issue of a qualified report on the group's financial statements;
- (i) seek from the external auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;
- (j) discuss with the external auditor any recommendations arising from the audit (if necessary in the absence of management); and review the draft management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control including management's response to the points raised;
- (k) ensure that the board will provide a timely response to issues raised in the external auditor's management letter;
- (l) where an internal audit function exists in the Company, review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditor and ensure that the internal audit function is adequately resourced and has appropriate standing within the group;
- (m) the engagement of the external auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditor due to their unique expertise in a particular area, the prior approval of the Committee is required;
- (n) discuss with management the scope and quality of systems of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function;
- (o) apprise the board of significant developments in the course of performing the above duties;

- (p) recommend to the board any appropriate extensions to, or changes, in the duties of the Committee;
- (q) review the findings of internal investigations and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations;
- (r) review arrangements by which employees, in confidence can raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee is to ensure proper arrangements are in place for the fair and independent investigation of such concerns and appropriate follow up action;
- (s) report to the board on above matters; and
- (t) consider other topics, as requested by the board.

## **7. Reporting Procedures**

- 7.1 Full minutes of the meetings of the Committee should be kept by the secretary. Draft and final versions of minutes of the Committee meetings should be sent to all members of the Committee for their comment and records respectively within a reasonable time after the meeting.
- 7.2 The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.

*As at 11 October 2013, the Committee comprises members, namely Mr. CHENG Kwok Kin, Paul (Chairman), Mr. WEI Jianan and Professor NG Ka Ming, all of whom are independent non-executive directors of the Company.*