



## Terms of Reference for the Audit Committee

(Effective Date: 1 January 2019)

---

### 1. Foreword

The Audit Committee under the board of directors (the “**Directors**” and the “**Board**”, respectively) of Fountain Set Holdings (HK) Limited (the “**Company**”) has amended the membership of the Committee in accordance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for appointing the members of the Committee and adopted the following revised terms of reference of the Committee effective from 1 January 2019.

### 2. Membership

The Audit Committee shall be appointed by the Board from amongst the Non-Executive Directors with a majority of Independent Non-executive Directors. It shall consist of not less than three members.

The chairman of the Audit Committee shall be appointed by the Board and should be an Independent Non-Executive Director.

The Audit Committee may appoint from time to time any person with appropriate qualification and/or experience as the Secretary of the Audit Committee.

A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of 2 years from the date of the person ceasing:

- (a) to be a partner of the firm; or
- (b) to have any financial interest in the firm

whichever is later.



### 3. Attendance at meetings

A quorum shall be 2 members.

The Head of Finance and the Head of Internal Audit 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 internal auditors without executive Board members present.

### 4. Frequency of meetings

Meetings shall be held not less than twice a year.

### 5. Authority

The Audit Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.

The Audit Committee should be provided with sufficient resources to perform its duties. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

### 6. Duties

Relationship with the external auditors

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the audit fee and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) to act as the key representative body for overseeing the relations with the external auditors, and to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the external auditors before



- the audit commences, the nature and scope of the audit and reporting obligations;
- (c) to develop and implement a policy on engaging the external auditors to supply non-audit services. For this purpose, “external auditors” includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

#### Review of financial information

- (d) to monitor the integrity of the financial statements, annual report, accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments 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 judgemental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and legal requirements in relation to financial reporting.
- (e) In regard to (d) above:-
- (i) members of the Audit Committee should liaise with the Directors and senior management and the Audit Committee must meet, at least twice a year, with the external auditors; and
  - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts; it should give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, the Head of



## Internal Audit of the Company or external auditors;

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

- (f) to review the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
- (g) to discuss the risk management and internal control systems with management to ensure that the management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmers and budget of the Company's accounting and financial reporting function;
- (h) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the management's response to these findings;
- (i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- (j) to review the financial and accounting policies and practices;
- (k) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (m) to report to the Board on the matters set out in Appendix 14 of the Listing Rules "Corporate Governance Code and Corporate Governance Report";
- (n) to review arrangements employees can use, in confidence, to raise concerns about



possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up action; and

- (o) to consider other topics, as defined by the Board.

## 7. Reporting procedures

Full minutes of the Audit Committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the Audit Committee meetings should be sent to all members of the Committee for their comment and records within a reasonable time after the meeting. The secretary shall circulate the minutes of the meetings and reports of the Audit Committee to all members of the Board.