

# PineStone 鼎石

## Pinestone Capital Limited

### 鼎石資本有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 804)**

**(the “Company”)**

### **Terms of reference**

**of**

### **Audit Committee**

**(the “Committee”)**

*(First adopted on 11 June 2015; as revised and approved by the board of directors of the Company on 27 May 2019)*

#### *Membership*

1. The Committee shall consist of at least three directors of the Company, all of whom shall be non-executive directors with majority of independent non-executive directors appointed by the board of directors (the “**Board**”) from time to time. At least one member of the Committee must be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.
2. The Board shall appoint one of the members as the Chairman of the Committee who shall be an independent non-executive director.
3. The company secretary of the Company or a nominee shall be the Secretary of the Committee.
4. A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of its audit committee for a period of two 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.

*Frequency and proceedings of meeting*

5. The Committee should meet at least twice per year. Additional meetings shall be held as the work of the Committee demands.
6. The Chairman of the Committee may convene additional meetings at his discretion.
7. The quorum of the Committee meeting shall be two members of the Committee.
8. Proceedings of meetings of the Committee shall be governed by the provisions of the Articles of Association of the Company.

*Authority*

9. The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee.
10. The 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.
11. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules, regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
12. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal or the external auditor, the Committee will arrange for the Corporate Governance Report in the Annual Report of the Company to include an explanation of the Committee's view and the reasons why the Board has taken a different view.
13. The Committee is to be provided with sufficient resources to discharge its duties.

### *Responsibility*

14. The Committee is to serve as a focal point for communication between the directors, the external auditor and the internal auditor 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. The Committee shall act as the key representative body for overseeing the Company's relations with the external auditor.
15. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial statements and material advice in respect of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (the "**Group**"), and as to the adequacy of the external and internal audits. The Committee shall report to the Board on the matters in these terms of reference.

### *Functions*

16. The Committee shall have the following functions and responsibilities:
  - (a) be primarily responsible for considering and making recommendations to the Board on the appointment, reappointment and removal of the external auditors, the performance of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;
  - (b) to review the Group's management, external auditor and internal auditor, 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 Director to be included in the annual accounts prior to endorsement by the Board;
  - (c) have familiarity with and to review the financial reporting and accounting policies, principles and practices applied by the Group in preparing its financial statements;

- (d) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. Prior to the audit commencement, the audit committee should review the scope of the external audit, including the engagement letter and discuss with the auditors the nature and scope of the audit and 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 and monitor the integrity of the Company's financial statements including the annual, interim and quarterly financial reports prior to approval by the Board, and to review significant financial reporting judgments contained in them, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;
- (f) regarding (e) above:
  - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet at least twice a year with the Company's auditors; and
  - (ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

- (g) review the draft representation letter 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. The Committee shall develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose "external auditor" 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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (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 and 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) review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditors 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 the internal control and risk management systems;
- (o) discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system; such discussion should include the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;
- (p) apprise the Board of significant developments in the course of performing the above duties;
- (q) recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (r) review arrangements that the employees of the Company can use, in confidence, to se concerns about possible improprieties in financial reporting, internal control or other matters; and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (s) oversee internal control procedures and corporate governance of the Company and supervise internal control systems of the Group;
- (t) review and consider the findings of major investigations on internal control matters (e.g. any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules, and regulations) as delegated by the Board or on its own initiative and management's response to these findings;
- (u) establish a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and vendors) to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company;
- (v) approve the policies relating to the hiring of employees or former employees of the external auditor and monitor the applications of such policy. The Committee will consider whether as a result of such hiring there has been any impairment of the auditor's judgment or independence in respect of an audit;
- (w) monitor any continuing connected transactions;

- (x) regularly report back to the Board on decisions or recommendations made, unless there are legal or regulatory restrictions to do so;
- (y) ensure the Chairman of the Committee, or in his absence another member of the Committee or failing this his duly appointed delegate, will attend and be available to answer questions at the annual general meeting of the Company; and
- (z) consider other topics and review other documents as requested by the Board from time to time.

*Reporting Procedures*

17. The Secretary of the Committee shall keep full minutes of Committee meetings, and shall circulate draft and final versions of the minutes of the Committee meetings, reports of the Committee and relevant information to all Committee members and directors of the Company for their comment and records within a reasonable time after the meeting.