Minshang Creative Technology Holdings Limited

民商創科控股有限公司

(the "**Company**")

(incorporated in the Cayman Islands with limited liability)

Audit Committee's terms of reference

(Revised on 29 November 2018)

The board of directors (the "**Board**") of the Company has on 8 November 2016 resolved to establish a committee of the Board known as the Audit Committee (the "**Audit Committee**") with effect from the listing date of the Company, a summary of its constitution and particular duties are set out below:-

1. Functions and Objectives

The Committee is appointed by the Board with a view to assist the Board in:

(i) providing an independent view of the effectiveness of the Group's financial reporting process, internal control and risk management system;

(ii) overseeing the audit process; and

(iii) performing other duties and responsibilities as assigned by the Board.

2. Membership

2.1 The Audit Committee shall be appointed by the Board and should comprise a minimum of three members (the "**Members**").

2.2 The Members shall be appointed from amongst the non-executive directors of the Company. The majority of Members should be independent non-executive directors of the Company, at least one of whom is an independent non-executive director with professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

2.3 The Board shall appoint the chairman of the Audit Committee. The chairman must be an independent non-executive director.

2.4 A former partner of the Company's existing auditing firm shall not act as a Member of the Audit Committee until two years after the commencement of the later of 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 the later.

2.5 The term of each appointment to the Members of the Audit Committee shall be determined by the Board upon appointment.

3. Secretary

3.1 Unless it is agreed otherwise, the secretary of the Company should be assumed the role of the secretary of the Audit Committee.

3.2 The Audit Committee may from time to time appoint another secretary with appropriate qualification and experience.

3.3 The chairman of the Audit Committee, in consultation with the financial controller and the secretary of the Audit Committee, should be primarily responsible for drawing up and approving the agenda for each Committee meeting. The chairman of the Audit Committee, with the assistance of the secretary, shall ensure that all Members shall receive sufficient information in a timely manner to enable effective discussion at the Committee meeting. The chairman of the Audit Committee shall, with the assistance of the financial controller, brief all members on issues arising at each Committee meeting.

4. Meetings

4.1 Meetings of the Audit Committee shall be held not less than two times a year. Special meetings may be convened as required. The external auditors may make the request to the chairman of the Audit Committee to convene a meeting of the Audit Committee.

4.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date shall be sent to each Member of the Audit Committee, and to any other person required to attend in relation to all regular meetings of the Audit Committee, at least 14 days before the date of the meeting; and in relation to continued meetings held within 14 days, no prior notice is required.

4.3 The quorum of Audit Committee meetings shall be two Members, one of them should be an independent non-executive director.

4.4 The Members may attend meetings either in person, by telephone or through other electronic means of communication (which are available to all attended parties).

4.5 Resolutions of the Audit Committee shall be passed with a majority of votes.

4.6 Resolutions signed by all Members of the Audit Committee will be treated valid as if it is passed in the meeting held by the Audit Committee.

4.7 Minutes of the Audit Committee meetings shall be kept by the secretary of the Audit Committee and shall be available for inspection by any Member of the Audit Committee and/or any director of the Company at any reasonable time on reasonable notice. Draft and final versions of minutes of the meetings shall be sent to all Members for their comments and records within a reasonable time after the meeting. Once they are agreed, the secretary of the Audit Committee shall circulate the minutes and reports of the Audit Committee to all members of the Board.

5. Attendance of Meetings

5.1 The Audit Committee shall attend meetings at least twice a year with the external auditors without executive Board members present (except those invited by the Audit Committee).

5.2 The Audit Committee may invite any appropriate person to attend meetings as it considers appropriate, including (a) the representative(s) of external auditors; (b) the financial controller; and (c) other Board members.

5.3 Only the Members shall have the voting powers.

6. Annual general meetings

6.1 The chairman of the Audit Committee shall endeavour to attend the annual general meetings of the Company and be prepared to respond to any shareholder questions on the Audit Committee's activities. If the chairman of the Audit Committee is unable to attend, a Member of the Audit Committee (who must be an independent non-executive director) shall attend the annual general meeting of the Company. Such person shall be prepared to respond to any shareholder questions on the Audit Committee's activities.

7. Duties and responsibilities

The duties of the Audit Committee shall be to serve as a focal point for communication between other directors, the external auditors, and the management as their duties relate to financial and other reporting, internal controls and the audits; and to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, be satisfying themselves as to the effectiveness of the company's internal controls and as to the efficiency of the audits, and shall be:-

Relationship with the Company's auditors

7.1 to be primarily responsible for making recommendations 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 its resignation or dismissal. The external audit fees are to be negotiated by management, and presented to the Audit Committee for review and approval annually;

7.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard and the Group's accounting policies;

7.3 to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

7.4 when assessing independency of the external auditors:

(i) to consider all relationships between the Company and the external auditor (including the provision of non-audit services);

(ii) to seek or obtain from the external auditor annually information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff;

(iii) to meet with the auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise; and

(iv) to agree with the Board on the Company's policy on hiring of employees or former employees of the external auditor and monitoring the applications of these policies. The Committee will consider whether as a result of such hiring there has been or appears to be any impairment of the external auditor's judgement or independence in respect of an audit;

7.5 to develop and implement policy on engaging an external auditor to supply non-audit services, if any, to identify and make recommendation on any matters where action or improvement is needed. 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;

7.6 to ensure that provisions of non-audit services would not impair the independency and objectivity of the external auditors. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee should consider:

(i) whether the skills and experience of the audit firm make it a suitable supplier of non-audit services;

(ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the external audit because the external auditor provides non-audit services;

(iii) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and

(iv) criteria for compensation of the individuals performing the audit;

7.7 to report to the Board, identifying and making recommendations on any matters where action or improvement is needed; and

7.8 where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, arrange for the Corporate Governance Report to include an explanation of the Committee's recommendation and the reasons why the Board has taken a different view.

Review of the Company's financial information

7.9 to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting;

7.10 to monitor the integrity of the Company's financial statements and annual report and accounts, half-year report, by ensuring that appropriate accounting principles, practices and reporting standards are followed, and to review significant financial reporting judgements contained therein. In reviewing these reports before submission to the Board, focusing particularly on:

(a) any changes in accounting policies and practices;

(b) major judgmental areas;

(c) significant adjustments resulting from the audit;

(d) the going concern assumptions and any qualifications;

(e) compliance with accounting standards; and

(f) compliance with the Listing Rules and other legal requirements in relation to financial reporting;

7.11 In regard to the duties under paragraph 7.10 above,

(a) the Members of the Audit Committee should liaise with the Board and senior management of the Company;

(b) the Audit Committee must meet, at least twice a year, with the Company's auditors; and

(c) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in the reports 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 office or auditors;

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

7.12 to review the Company's financial controls, internal control and risk management systems;

7.13 to discuss the internal control system with management and to ensure that management has performed its duty to have an effective internal control system; this discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

7.14 to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

7.15 where an internal audit function exists, to 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 Company, and to review and monitor its effectiveness;

7.16 to review the Group's financial and accounting policies and practices;

7.17 to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

7.18 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

7.19 to report to the Board on the matters set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules; and

7.20 to consider other matters, as defined by the Board, to be performed by the Audit Committee;

7.21 to ensure that the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Company's accounting and financial reporting function;

7.22 to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

7.23 to act as the key representative body for overseeing the Company's relationship with the external auditor;

7.24 to formulate whistle-blowing policies and systems so that the employees and other persons (e.g. customers and suppliers) who have connections with the Company can, in confidence, report to the Committee concerns about any impropriety relating to the Company; and

7.25 to consider any other topics, as defined by the Board.

8. Reporting responsibilities and procedures

8.1 After each meeting, the Audit Committee shall report formally to the Board on all matters within its duties and responsibilities.

8.2 The Audit Committee should make available these terms of reference, explaining the role of the Audit Committee and the authority delegated to it by the Board by including them on the Stock Exchange's website and the Company's website.

8.3 The secretary of the Audit Committee shall record minutes of all duly constituted meetings of the Committee. All minutes shall record in sufficient details the matters considered, decisions reached or recommendations made and any concerns raised by any member including dissenting views.

8.4 The secretary shall circulate the draft and final versions of the minutes of meetings and reports of the Audit Committee to all members for comments and records within a reasonable time after each meeting, subject to any legal or regulatory restrictions restricting such circulation or the making of such reports.

8.5 The chairman of the Audit Committee who chairs the meetings or other Member who is authorised by the chairman of the Audit Committee to chair the meetings shall report in the forthcoming regular Board meeting any key decisions made and shall table before the Board an index of meetings and issues discussed.

9. Authority

9.1 The Audit Committee is authorized by the Board to investigate any activity within its terms and any financial information and records of the Company.

9.2 The Audit Committee is authorized by the Board when necessary to seek any financial information it requires from any employee of the Company and its subsidiaries, to require any of them to prepare and supply financial information and answer questions raised by the Committee. All employees are directed to cooperate with the Audit Committee.

9.3 The Audit Committee is authorized by the Board when necessary to have access to members of management and other employees and obtain information required by Members and outside legal or other independent professional advice in connection with its duties at the Company's expense.

Note: All such arrangements of obtaining outside legal or other independent professional advice may be made by the company secretary. The Audit Committee shall have access to sufficient resources in order to perform its duties. Where necessary, the Audit Committee should seek independent professional advice, at the Company's expense, to perform its responsibilities.

10. Interpretation

Interpretation of these terms of reference shall belong to the Board.

"Senior management" refers to the same category of persons as referred to in the Company's annual report. It is the responsibility of the directors of the Company to determine which individual or individuals constitute senior management. Senior management may include directors of subsidiaries, heads of divisions, departments or other operating units within the group as, in the opinion of the directors, is appropriate.