
Fidelity China Special Situations PLC

Terms of Reference of the Audit and Risk Committee

1. Function

- 1.1 The function of the Audit and Risk Committee is to ensure that the Company maintains the highest standards of integrity, financial reporting and internal control.

As part of this function, the Audit and Risk Committee is to review the Company's internal control systems, form an opinion as to the effectiveness of internal controls and report formally to the Board.

2. Membership

- 2.1 The Committee shall be appointed by the Board and shall consist of a Chairman and not less than two other members. The Chairman of the Board shall not be a member. A quorum shall be two members.
- 2.2 All members shall be independent non-executive Directors and at least one should have recent relevant financial knowledge.
- 2.3 A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of one year commencing on the date of his ceasing:
- (i) to be a partner of the firm; or
 - (ii) to have a financial interest in the firm, whichever is later.
- 2.4 An induction programme is required for new Audit and Risk Committee members.
- 2.5 All members shall be given regular updates regarding any proposed developments or changes in laws or regulations which affect the Company and/or the Directors.
- 2.6 Representatives of the external auditor and a representative from Fidelity's internal audit department shall be invited to attend meetings. Other individuals may be invited to attend. All independent Directors have the right to attend meetings.

3. Meetings

- 3.1 The Committee shall meet at least three times a year and at such other times as the Chairman of the Committee, the external or internal auditors or any Committee member shall require.
- 3.2 At least annually, the Committee, failing whom the Chairman of the Audit and Risk Committee, should communicate with external and internal auditors without management present to discuss the remit and issues arising from the audit.
- 3.3 The Company's external auditor shall be advised of the timing of Committee meetings and shall be invited to attend such meetings as appropriate. The Committee shall have access to the auditor if it so requires. The Committee shall also have direct access to the management company's compliance officer, internal auditor and other key business heads as deemed necessary.
- 3.4 Meeting papers should be sent in full to all Committee members and at least three days before the intended date of a meeting of the Committee (or such other period as agreed by its members).
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4. Secretary

4.1 The Company Secretary shall be the Secretary of the Committee and shall, unless and to the extent from time to time determined by the Committee, attend all meetings of the Committee. Minutes of the Committee shall be circulated to the Board.

4.2 Full minutes of the Committee meetings shall be kept by the Secretary and draft and final versions of the minutes of the Committee shall be sent to all Committee members for their comment and records respectively, in both cases within reasonable time after such meetings. Minutes shall also be circulated to the Board for noting.

5. Authority

5.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to obtain, at the Company's expense, outside legal or other independent professional advice on any matters within its terms of reference and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. It is also authorised to seek any information it requires from any member of the Manager's staff in order to perform its duties and call on any member of the Manager's staff to be questioned by the Committee as and when required.

6. Duties

The Committee's duties shall be to:-

6.1 review and monitor the integrity of the Company's financial statements, annual reports and accounts, half yearly reports and any formal announcements and, if prepared for publication, quarterly reports, reviewing significant financial reporting judgements contained therein. The Committee shall focus particularly on:

- (i) any change in accounting policies and practices;
- (ii) major judgemental areas;
- (iii) significant adjustments resulting from audit;
- (iv) the going concern assumptions and any qualifications;
- (v) the appropriateness of the Viability Statement in the annual reports;
- (vi) compliance with accounting standards
- (vii) compliance with relevant listing rules and other legal requirements
- (viii) the Company's principal risks, both existing and emerging.

6.2 in respect to 6.1 above;

- (i) liaise with the Board, the senior management of the Company and the person appointed as the Company's qualified accountant;
- (ii) meet at least once a year, with the Company's external auditor;
- (iii) consider any significant or unusual items that are, or may need to be, reflected in such financial statements, reports and accounts and give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors; and
- (iv) review the valuations of unlisted investments. (note: already in 6.16)

6.3 receive a report from the management company confirming that it has conducted the Company's affairs in compliance with the regulations applying to it, together with information regarding any unusual transactions or complaints.

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- 6.4 to review the effectiveness of the Company's financial controls, internal control systems and risk management systems; and to review the Company's top risks, both actual and emerging, contained in the Risk & Internal Controls Report, including review and amendment to risk ratings as appropriate.
- 6.5 discuss with the management of the Company any matters in relation to the Company's internal control systems and ensure that the management of the Company has discharged its duties in establishing and maintaining an effective internal control system.
- 6.6 consider any findings of major investigations of internal control and matters as delegated by the Board or on its own initiative and the response of the management of the Company.
- 6.7 ensure co-ordination between the internal audit team and the external auditor, ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor the effectiveness of the internal audit function.
- 6.8 review the group's financial and accounting policies and practices.
- 6.9 review the external auditor's engagement letter, any material queries raised by the auditor to the management of the Company in respect of the accounting records, financial accounts or systems of control and the response of the management of the Company.
- 6.10 ensure that the Board will provide a timely response to the issues raised in the external auditor's engagement letter.
- 6.11 make recommendations to the Board for it to put to the Shareholders for their approval in general meeting in relation to the appointment, reappointment or 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.
- 6.12 review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements, to consider the risks associated with audit firms withdrawing from the market and approve terms and remuneration, including reviewing the engagement letter at start of each audit and the scope of the audit. (repeated in 6.14)
- 6.13 develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm. The Audit and Risk Committee will recommend and authorise the payment of any non-audit fees payable to the external auditors.
- 6.14 discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved.
- 6.15 report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.
- 6.16 review the reports from the Fair Value Committee and any recommendations on the valuation of unlisted investments.
- 6.17 consider any other topic, as defined by the Board.

7. Disagreement as to external auditors

- 7.1 In the event the Board disagrees with the Committee's view on the selection, appointment,
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resignation or dismissal of the external auditor, the Committee shall provide statements explaining its recommendations to the Company and also reasons why the Board has taken a different view for inclusion in the Corporate Governance Report.

8. Reporting Responsibilities

8.1 The role of the Committee is for the Board to decide. The results of work carried out for the Board should be reported to and considered by the Board. The Committee should identify matters where action or improvement is needed and recommend to the Board the steps which should be taken.

8.2 The Committee shall report back to the Board and keep the Board fully informed of its decisions and make whatever recommendations to the Board it deems appropriate, unless prohibited by applicable law or regulations.

8.3 Minutes should be made available to all Board members and, if thought necessary, will be discussed at the next Board meeting.

9. Resources

9.1 The Committee should have access to sufficient resources and the services of the Secretariat.

9.2 Papers and adequate information enabling the Committee to make informed decisions should be available to the Committee in a timely manner. The information supplied must be complete and reliable. Where a Committee member requires more information than is volunteered, the relevant member should make additional necessary enquiries.

9.3 Funds will be made available for professional advice (see 5.1 above).

10. Communication with Shareholders

10.1 These Terms of Reference should be made available to Shareholders. A separate section in the Annual Report should describe the work of the Committee in discharging its responsibilities.

10.2 The Committee Chairman or in the absence of the Chairman, another Committee member, or failing which, his duly appointed alternate should be present at the AGM to answer questions through the Company Chairman on the Annual Report and the matters within the Committee's remit.

11. Terms of Reference available

11.1 The Committee should make available its Terms of Reference, explaining its role and the authority delegated to it by the Board.

Amended by the Committee and approved by the Board on 19 November 2019.
