



SOMERLEY CAPITAL HOLDINGS LIMITED

Somerley Capital Holdings Limited 新百利融資控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8439)

(the “Company”)

AUDIT COMMITTEE — TERMS OF REFERENCE

1. Membership

- 1.1 The audit committee (the “**Committee**”) shall be appointed by the board of directors of the Company (the “**Board**”) from amongst the non-executive directors of the Company and shall consist of not less than three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required in Rule 5.05(2) of the Rules Governing the Listing of Securities on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”).
- 1.2 The majority of the Committee members should be independent non-executive directors of the Company.
- 1.3 The chairman of the Committee must be an independent non-executive director.
- 1.4 The quorum of the Committee meeting shall be two members.
- 1.5 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 two years from the date, whichever is later, of his ceasing: -
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm.
- 1.6 A member who wishes to retire or resign from the Committee should provide notice to the Company so that a replacement may be appointed before he leaves.

2 Casting vote

- 2.1 In the case of an equality of votes at a meeting of the committee, the chairman of the meeting shall have the casting vote.

3. Authority, Duty, Powers and Discretion

The responsibility of the Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting, risk management and internal control systems. The Committee shall have the following authority, duties, powers and discretion:

Authority

- 3.1 The authority of the Committee is derived from the Board. Therefore, the Committee is obliged to report to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so.
- 3.2 The Committee is authorized by the Board to investigate any activity within the scope of these terms of reference and shall be provided with sufficient resources to perform its duties. It is authorized to seek any information it requires from any employee of the Company and its subsidiaries (hereinafter referred to as the "Group") and members of the Board in order to perform its duties and all employees of the Group and members of the Board are directed to co-operate with any request made by the Committee within the scope of these terms of reference.
- 3.3 The Committee has the authority to exercise the following powers:
 - (a) to monitor whether the Group's management has, in the performance of its duties, infringed any policies set by the Board or any applicable law, regulation and code (including the GEM Listing Rules and other rules and regulations from time to time laid down by the Board or a committee thereof);
 - (b) to investigate all suspected fraudulent acts involving the Group and request the management of the Group to make investigation and submit reports;
 - (c) to review the Group's risk management and internal control systems and to make recommendations to the Board for the improvement of the Group's risk management and internal control systems;
 - (d) to review the performance of the Group's employees in the accounting and internal audit department; and
 - (e) to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the auditors of the Group.

Duty

3.4 The Committee has the following duties:

Appointment of the Company's 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 remuneration and terms of engagement of the external auditor, and any questions of their resignation or dismissal;
- (b) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (c) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (d) to 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; and
- (e) to discuss problems and reservations arising from the quarterly (if any), interim and final audits or reviews and any matters the external auditors may wish to discuss (in the absence of the Board and other employees of the Group at the discretion of the Committee where necessary).

Review of the Company's financial information

- (f) to monitor the integrity of the Company's financial statements and the annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:-
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;

- (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards;
 - (vi) compliance with the GEM Listing Rules and legal requirements in relation to financial reporting;
 - (vii) any connected transactions and their impact on the profitability of the Company;
 - (viii) items requiring disclosure; and
 - (ix) the cash flow position.
- (g) regarding (f) 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;
 - (ii) the 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 Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors; and
 - (iii) in reviewing the financial statements and reports of the Group, the Committee may rely on the expertise and information provided by the external auditors and the management of the Group.

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

- (h) 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;
- (i) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. 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;

- (j) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (k) to have an internal audit function or otherwise to review the need for one on an annual basis and disclose the reasons for the absence (if applicable) of such a function in the corporate governance report;
- (l) 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;
- (m) to review the Group's financial and accounting policies and practices;
- (n) to discuss any problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary) and to assist in the resolution of any disagreements or differences between the external auditor and management;
- (o) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (p) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (q) 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. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (r) to report to the Board on the matters in the Corporate Governance Code and Corporate Governance Report in Appendix 15 of the GEM Listing Rules;
- (s) to report to the Board on the matters set out in the Terms of Reference;
- (t) to consider other topics, as defined by the Board; and
- (u) to establish a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company.

Overseeing of the Company's continuing connected transactions

- (v) to be responsible for all matters relating to the continuing connected transactions of the Company; and
- (w) without prejudice to the generality of the foregoing:
 - (i) to review and monitors any actual or potential continuing connected transactions (including exempt continuing connected transactions) to be entered into with any connected person of the Company (the “**Continuing Connected Transactions**”);
 - (ii) to review the approval procedures by the relevant Board meetings for the Continuing Connected Transactions;
 - (iii) to prepare reports on an annual basis for the review by the Board;
 - (iv) to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board; and
 - (v) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the Company's constitution or imposed by applicable legislation and regulations.

4. Disagreement as to appointment of external auditors

- 4.1 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee should include in the corporate governance report a statement from the Committee explaining its recommendation and also the reasons(s) why the board has taken a different view.

5. Administration

- 5.1 The Committee shall hold at least four meetings each financial year. The meeting may be held by means of a conference telephone or other communication facility.
- 5.2 The meetings and proceedings are governed by the provisions contained in the Company's articles of association for regulating the meetings and proceedings of directors.
- 5.3 The company secretary of the Company (the “Company Secretary”) shall be the secretary of the Committee.
- 5.4 The Committee may invite executive directors and external auditors to attend the Committee meeting.

5.5 The financial controller or chief financial officer, the head of internal audit (where an internal audit department exists) of the Company and a representative of the external auditors and those with meaningful input to the Committee's activities shall normally attend meetings of the Committee.

5.6 An agenda and accompanying papers shall be sent in full to all members of the Committee in a timely manner and at least 3 days before the intended date of the meeting of the Committee (or such other period as agreed by its members).

6. Reporting

6.1 The chairman of the Committee should attend the annual general meeting. In his absence, he should invite another member of the Committee or, failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

6.2 The Committee shall report to the Board on its decisions or recommendations on a regular basis.

6.3 The Company Secretary shall keep minutes of each Committee meeting. Draft and final versions of minutes of meetings shall be sent to all Committee members for their comments and records within a reasonable time after the meeting.

6.4 The Company Secretary shall circulate the minutes of meetings of the Committee to all members of the Board, unless a conflict of interest exists or there are legal or regulatory restrictions on their ability to do so.

7. Disclosure

7.1 The Committee shall make available the terms of reference on the website of the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited and the Company's website explaining the role of the Committee and the authority delegated to it by the Board.

8. Constitution, Review and Revision

8.1 The Committee was established pursuant to a resolution passed by the Board at a meeting held on 9 March 2017. Its terms of reference was revised by the Board resolution on 31 December 2018.