



## **SOLOMON SYSTECH (INTERNATIONAL) LIMITED**

(the "Company")

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2878)

### **TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

#### **Membership**

1. The Audit Committee shall consist of not less than three members appointed by the board of directors of the Company (the "Board"), all of whom shall be Non-Executive Directors, and a majority of whom shall be Independent Non-executive Directors under the Rules Governing the Listing of Securities in The Stock Exchange of Hong Kong Limited (the "Listing Rules"). At least one member of the Audit Committee shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Listing Rules 3.10(2).
2. 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 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.
3. The Chairman of the Audit Committee must be an independent non-executive director and shall be appointed by the Board.
4. The Company Secretary or his nominee shall act as the Secretary of the Audit Committee.

## **Frequency and Proceedings of Meetings**

5. The Audit Committee should meet at least twice per year. Additional meetings should be held as the work of the Committee demands.
6. The Chairman of the Audit Committee may convene additional meetings at his discretion.
7. The quorum for a meeting shall be two members.
8. Proceedings of meetings of the Audit Committee shall be governed by the provisions of Article 126 of the Articles of Association of the Company.

## **Authority**

9. The Audit Committee is granted the authority to investigate any activities relating to the Company and its subsidiaries (the "Group") within its terms of reference and all employees are directed to cooperate with the Committee. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.
10. The Audit Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
11. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the, the Committee will arrange for the Corporate Governance Report in the Annual Report to include an explanation of the Audit Committee's view and the reasons why the Board has taken a different view.
12. The Audit Committee is to be provided with sufficient resources to discharge its duties.

## **Responsibility**

13. The Audit Committee is to serve as a focal point for communication between other directors, the independent 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.
14. The Audit Committee is to assist the Board in fulfilling its responsibilities:
  - (a) by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the risk management and internal controls of the Group, and as to the adequacy of the external and internal audits; and
  - (b) under the corporate governance duties specified by The Stock Exchange of Hong Kong Limited from time to time.

## **Duties, powers and functions**

15. The Audit Committee is to:
  - (a) be responsible for making recommendations to the Board on the appointment, reappointment and dismissal of the independent auditor, and to approve the remuneration and terms of engagement of the independent auditor, and any questions of its resignation or dismissal;
  - (b) review with the Group's management, independent auditor and internal auditor, the adequacy of the Group's policies and procedures regarding risk management and internal controls system (including financial, operational and compliance controls and risk management functions), and any statement by the directors to be included in the annual accounts prior to endorsement by the Board;
  - (c) have familiarity with the financial reporting principles, policy and practices applied by the Group in preparing its financial statements;
  - (d) prior to commencement of audit, review independent auditor's independence, objectivity, effectiveness of the audit process and the scope of the independent audit, including the engagement letter. The Audit Committee should discuss with the independent auditor the nature and scope of the audit and reporting obligations before the audit

commences. The external audit fees are to be negotiated by the management, and presented to the Audit Committee for review and approval annually;

(e) review the annual, quarterly (if any) and interim financial statements prior to approval by the Board, with particular focus on:

- any changes in accounting policies and practices;
- major judgmental areas;
- significant adjustments resulting from the audit;
- the going concern assumption and any qualifications;
- compliance with accounting and auditing standards; and
- compliance with the Listing Rules and legal requirements;

(f) with regard to (e) above:

- members of the Audit Committee must liaise with the Board and senior management, and the Committee must meet, at least twice a year, with the independent auditor; and
- the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditor;

(g) review the draft representation letter prior to approval by the Board;

(h) evaluate the cooperation received by the independent auditor, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the independent auditor to the Group's needs; inquire the independent auditor as to whether there have been any disagreements with the 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 independent 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;

- (j) discuss with the independent auditor any recommendations arising from the audit (if necessary in the absence of the management); and review the draft management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control including the management's response to the points raised;
- (k) ensure that the Board will provide a timely response to issues raised in the independent auditor's management letter;
- (l) review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and independent auditor and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;
- (m) the engagement of the independent auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the independent auditor due to their unique expertise in a particular area, the prior approval of the Audit Committee is required;
- (n) discuss with management the scope and quality of risk management and internal control systems and ensure that management has discharged its duty to have in place effective risk management and internal control systems including the adequacy of resources, qualifications and experience of staff of the accounting, internal audit and financial reporting functions, and their training programmes and budget;
- (o) apprise the Board of significant developments in the course of performing the above duties;
- (p) recommend to the Board any appropriate extensions to, or changes, in the duties of the Audit Committee;
- (q) review the findings of internal investigations and the management's response into any suspected frauds or irregularities or failures of risk management and internal controls or infringements of laws, rules and regulations;

- (r) agree with the Board the Company's policy relating to the hiring of employees or former employees of the independent auditor and monitor the applications of such policy. The Audit 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;
- (s) review arrangements by which employees, in confidence can raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee is to ensure proper arrangements are in place for the fair and independent investigation of such concerns and appropriate follow up action;
- (t) act as the key representative body for overseeing the Company's relations with the independent auditor;
- (u) responsible for corporate governance duties by:
  - developing and reviewing policies and practices on corporate governance and making recommendations to the Board;
  - reviewing and monitoring the training and continuous professional development of directors and senior management;
  - reviewing and monitoring the policies and practices on compliance with legal and regulatory requirements;
  - developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors;
  - conducting annual review the adequacy and effectiveness of the assessment in relation to the risk management and internal control systems adopted; and
  - reviewing the compliance with the code and disclosure in the Corporate Governance Report.
- (v) report to the Board on above matters; and
- (w) consider other topics, as requested by the Board.

## **Reporting Procedures**

16. The Audit Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the Chairman of the Audit Committee shall report to the Board on the findings and recommendations of the Committee. At least annually, the Audit Committee should present a report to the Board which addresses the work and findings of the Committee during the year.

Note: If there is any inconsistency between the English and Chinese versions of this document, the English version shall prevail.

January 2019