

Southwest Securities International Securities Limited

西證國際證券股份有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 812)

AUDIT COMMITTEE

Terms of Reference

Constitution

The board of directors (the “**Board**”) of Southwest Securities International Securities Limited (the “**Company**”) hereby resolves to establish a committee of the Board to be known as the Audit Committee (the “**Audit Committee**”).

Membership

The members of the Audit Committee shall be appointed by the Board from amongst the non-executive directors of the Company and the Audit Committee shall consist of not less than three members, at least one of whom, shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) and the transitional procedures under rule 3.19 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). A quorum of a meeting of the Audit Committee shall be two members.

The majority of the Audit Committee must be independent non-executive directors of the Company.

The Audit Committee must be chaired by an independent non-executive director of the Company.

Attendance at meetings

The head of finance and accounting department and the head of legal and compliance department, and a representative of the external auditors shall normally attend meetings of the Audit Committee. Other Board members shall also have the right of attendance. The other Board members’ said right of attendance, however, is subject to the requirement that the Audit Committee shall meet at least twice a year with the external auditors without executive Board members present.

The company secretary of the Company or his/her nominee shall be the secretary of the Audit Committee.

* For identification purpose only

Frequency of meetings

Meetings of the Audit Committee shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

Authority

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee of the Company and its subsidiaries (together, the “**Group**”) and all employees of the Group are directed to co-operate with any request made by the Audit Committee.

The Audit Committee is authorised 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.

Duties

The duties of the Audit Committee shall include, but shall not be limited to the following:

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;
2. to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
3. to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences, and ensure co-ordination where more than one audit firm is involved;
4. to develop and implement policy on engaging an external auditor to supply non-audit services. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
5. to monitor integrity of the Company’s financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them 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 legal requirements in relation to financial reporting;

6. to liaise with the Board and senior management and to meet, at least twice a year, with the external auditors and to 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 head of finance and accounting department, the head of legal and compliance department or the external auditors;
7. 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,;
8. to discuss the risk management and internal control systems with management to ensure that the 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;
9. 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;
10. (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;
11. to review the Group's financial and accounting policies and practices;
12. to review the external auditor's management letter recommendations, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
13. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
14. to report to the Board on the matters in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules;
15. to consider other topics, as defined by the Board;
16. 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 Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
17. to act as the key representative body for overseeing the Company's relations with the external auditor.

Report procedures

Full minutes of Audit Committee meetings should be kept by the secretary. Draft and final versions of minutes of the meetings should be sent to all committee members for their comment and records within reasonable time after the meeting.

The secretary shall circulate the minutes of meetings of the Audit Committee to all members of the Board.

Note : The Audit Committee should refer to “A Guide for Effective Audit Committees” published by the Hong Kong Institute of Certified Public Accountants in February 2002 and “Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor’s Independence” issued by the Technical Committee of the International Organization of Securities Commission in October 2002 whenever necessary.

(Revised by the Company pursuant to the Board resolutions on 31 December 2015.)