



SHENWAN HONGYUAN (H.K.) LIMITED
申萬宏源（香港）有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

TERMS OF REFERENCE OF AUDIT COMMITTEE

Constitution

1. In order to strengthen the decision-making and supervision functions of the Board and optimize the corporate governance structure of Shenwan Hongyuan (H.K.) Limited (the “Company”), an Audit Committee (the “Committee”), which is a sub-committee of the Board has been established and formulated by these Terms of Reference.

Membership

2. Members of the Committee shall be appointed by the Board. All Committee members shall be non-executive directors and a majority of whom shall be independent non-executive directors under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Committee must comprise at least three members, at least one of whom is independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.
3. The Chairman of the Committee shall be an independent non-executive director and appointed by the Board.
4. If an independent non-executive director has served more than nine years, such director’s further appointment should be subject to a separate resolution to be approved by shareholders. Where all the independent non-executive directors of the Company have served more than nine years on the board, the Company should disclose the length of tenure of each existing independent non-executive director on a named basis in the circular to shareholders and/or explanatory statement accompanying the notice of the annual general meeting and appoint a new independent non-executive director on the board at the forthcoming annual general meeting.

5. The remuneration for the independent non-executive directors shall be determined by the Board with reference to the remuneration benchmark in the industry and the prevailing market conditions.

Quorum and Attendance at Meetings

6. Two members of the Committee shall constitute quorum of the Committee. Chief Financial Officer, Head of Internal Audit and Representative of external auditors shall normally attend meetings. Other Board members shall also have rights of attendance. However, at least twice a year, the Committee shall meet with the external auditors without the attendance of executive directors.
7. The Head of Internal Audit Department or his/her nominee shall be the secretary of the Committee. Minutes will be taken for Audit Committee meetings and kept by the Company Secretary. Draft and final versions of minutes of the meetings should be sent to all Committee members for their comments and records, within a reasonable time after the meetings.

Frequency of Meetings

8. Meetings shall be held not less than twice a year at appropriate times in the reporting and audit cycle and otherwise as required. Meeting can be convened at the request of the Chairman of the Committee, members or the external or internal auditors.

Authority

9. The Committee has the right to initiate investigation on any activity under its term of reference. It is authorized to seek any information deemed relevant to perform its duties under these Terms of Reference from any employees and all employees are directed to co-operate with any request made by the Committee.
10. To assist Committee members to discharge their duties, the following procedures for seeking professional advice at the Company's expenses shall be observed:
 - (a) The Committee members shall submit a request in writing to the Chairman of the Board stating the grounds for seeking the independent professional advice;
 - (b) The Chairman of the Board would approve the Committee member's request directly. If necessary, the Chairman may convene the board meeting to resolve the matter.

Duties

11. The duties of the Committee shall be:

Relationship with 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 its resignation or dismissal;
- (b) 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;
- (c) 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;

Review of the Company's financial information

- (d) 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 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; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting.

(e) Regarding to (d) 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; and
- (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;

Oversight of the Company's financial reporting and internal control systems

- (f) to review the Company's financial controls and internal control systems;
- (g) to discuss the 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 programs and budget of the Company's accounting and financial reporting function;
- (h) 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;
- (i) 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;
- (j) to review the group's financial and accounting policies and practices;
- (k) 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;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- (m) to report to the Board on the matters in the Corporate Governance Code;
- (n) to consider other topics, as defined by the Board;
- (o) 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;
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor;

Corporate Governance Functions

- (q) to develop and review the Company's policies and practices on corporate governance which is related to internal audit matters and make recommendations to the Board;
- (r) to review and monitor the training and continuous professional development of directors and senior management;
- (s) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (t) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (u) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Reporting procedures

12. The secretary of the Committee shall circulate minutes of the meetings to the Committee members.

August 2022