

# **Terms of Reference of the Audit Committee under the Board of Directors of Huishang Bank Corporation Limited**

## **Chapter 1 General Provisions**

**Article 1** These Terms of Reference are hereby formulated in accordance with the “Corporate Governance Standards for Banking and Insurance Institutions”, the “Articles of Association of Huishang Bank Corporation Limited” (the “**Articles**”), the “Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited” (the “**Listing Rules of the Stock Exchange**”) and other relevant rules and regulations, to further improve the corporate governance structure of Huishang Bank Corporation Limited (hereinafter referred to as the “**Bank**”), to enhance the decision-making of the Board of Directors of the Bank, to ensure effective supervision over the management of the Bank, and to ensure sustainable, stable and sound development of the Bank.

**Article 2** The Audit Committee (the “**Committee**”) is a specialized working body established by the Board of Directors of the Bank pursuant to the Articles. The Committee provides its professional advice to the Board within the scope of its duties or make decisions on professional matters as authorized by the Board of Directors. Its principal duties include overseeing the Bank’s internal control measures, reviewing the Bank’s financial information and disclosure, and inspecting, supervising and assessing the internal audit work of the Bank.

If a proposal to be decided on by the Board of Directors falls within the scope of duties of the Committee, such proposal shall be first submitted to the Committee for consideration, and the Committee shall put forward its deliberation opinions.

Except as authorized by the Board of Directors according to law, the deliberation opinions of the Committee shall not supersede the voting opinions of the Board of Directors.

## **Chapter 2 Composition of the Committee**

**Article 3** The Committee shall comprise at least three (3) non-executive directors (including independent directors). A majority of the members of the Committee shall be independent directors and the chairman of the Committee shall be an independent director. At least one of the members of the Committee shall be an independent director who is a finance or accounting professional, and other members should also possess professional knowledge and work experience in certain area, such as as audit, finance, accounting or legal.

**Article 4** A former partner of the external audit firm currently engaged by the Bank shall not act as a member of the Committee within two (2) years from the following date (whichever is later):

- (1) the date on which the former partner ceases to be a partner of the accounting firm; or
- (2) the date on which the former partner ceases to have any financial interest in the accounting firm.

**Article 5** Members of the Committee shall be nominated by the chairman of the Board of Directors and shall be appointed by the Board of Directors. Any adjustment, replacement and dismissal of the members of the Committee shall be determined by the Board of Directors.

**Article 6** The Committee shall have one (1) chairman, who shall be served by an independent director, and shall preside over the operation of the Committee. The chairman shall be elected by more than half of all the members of the Committee and the decision shall be finalized upon approval by the Board of Directors. If the chairman is unable to perform his/her duties, he/she shall appoint a member to perform the duties on his/her behalf. If the chairman fails to do so, more than half of the members shall jointly elect a member to perform the duties of the chairman on his/her behalf.

The major responsibilities of the chairman shall include:

- (1) to preside over the meetings of the Committee to ensure effective operation of the Committee and performance of its duties;
- (2) to determine the agenda of the meeting of the Committee;
- (3) to ensure a clear and explicit conclusion is made in connection with the resolution considered by the Committee;
- (4) to propose to convene a meeting of the Committee;
- (5) to represent the Committee to report its work to the Board of Directors;
- (6) to perform other duties specified in laws, regulations, rules, normative documents, regulatory rules of the jurisdiction where the shares of the Bank are listed, the Articles, and these Terms of Reference.

**Article 7** The term of office of the members of the Committee shall coincide with that of directors on the Board of Directors. A member of the Committee may serve consecutive terms if re-elected upon expiry of his/her term. If any member of the Committee ceases to be a director during the term of office, he/she will automatically be disqualified from serving as a member of the Committee. The Board of Directors shall appoint the necessary number of members of the Committee pursuant to the Articles and these Terms of Reference to substitute for those disqualified, and the term of office of such members shall expire on expiry of the term of office of the then incumbent members of the Committee.

**Article 8** A working group is established under the Committee, which is responsible for the daily work-related liaison, organizing meetings, preparing meeting minutes, gathering information and conducting relevant studies. The tasks of the working group are led and coordinated by the Office of the Board of Directors, with assistance from the Audit department. The group also works closely with relevant functional departments.

### **Chapter 3 Principal Duties**

**Article 9** The Committee shall perform the following duties:

- (1) to review the Bank's financial statements, annual reports and accounts, interim reports and quarterly reports (if prepared for publication), important opinions on the accounting statements and financial reports and any other information related to the Bank's business operations, and to audit the Bank's operating efficiency, profit distribution and capital utilization;
- (2) to review and ensure that the Board of Directors provides timely response to the recommendations (or any equivalent documents) given to the senior management by external auditors, and to review any major issues raised by external auditors and the responses provided by the senior management in relation to the Bank's accounting records, financial accounts or control system;
- (3) to review the information disclosed at shareholders' general meetings and to the public by the Bank, and to verify the truthfulness, legality, completeness and accuracy of the Bank's financial and accounting reports, capital utilization reports and other material matters;
- (4) to review the Bank's systems for internal control and financial monitoring, to audit the Bank's material related party transactions, to supervise the implementation of and compliance with the Bank's risk management system, to discuss internal control measures with members of the senior management and report the same to the Board of Directors; as delegated by the Board of Directors or on its own initiative, to analyze findings of material investigation relating to the internal control measures and the senior management's response to such findings;
- (5) to supervise the implementation of the Bank's internal audit system;
- (6) to organize and lead internal audit under the authorization of the Board of Directors;
- (7) to take charge of the Bank's annual audit, to make audit opinions and recommendations to the Board of Directors regarding the appointment, re-appointment and replacement of the external auditors for regular legal audit of the Bank's financial statements, and to prepare and submit subjective reports regarding the truthfulness, accuracy, completeness and timeliness of information in the audited financial statements to the Board of Directors for review. The Committee should require the external auditors engaged by the Bank to provide explanations on the scope of their services provided, their terms of appointment, fees charged and other matters which may affect the independence of the audit, and make an assessment on the independence of the external auditors and submit the same to the Board of Directors for approval. The Committee should deal with any issues relating to the resignation or removal of external auditors;
- (8) to review the financial and accounting policies and practice of the Bank;
- (9) to take charge of the communication and coordination between the internal auditors and external auditors, and to ensure that internal audits are adequately resourced and have appropriate standing within the Bank;

- (10) to evaluate the whistleblowing mechanism for the Bank's employees in relation to financial statements, internal control or other irregularities of the Bank, and to conduct independent and fair investigation on whistleblowing, and to take appropriate action;
- (11) to carry out any other matters required under laws, regulations and other normative documents;
- (12) to carry out any other matter as authorized by the Board of Directors.

**Article 10** The Committee shall have the right to require the senior management of the Bank to provide sufficient support to the work of the Committee. The senior management shall ensure that information on the Bank's financial condition, internal control condition, operating and business condition is provided to the Committee on a timely basis. The information provided to the Committee shall be accurate and complete to assist the Committee to perform its duties.

**Article 11** Members of the Committee shall, before taking office, make a statement to the Board of Directors stating that they will have sufficient time and effort to perform their duties, and that they will undertake to act with diligence. The chairman of the Committee shall work at the Bank for no less than 20 working days each year. Members of the Committee shall attend at least two-thirds of the total number of meetings held by the Committee over the entire year, and any member in breach of the foregoing may be removed or replaced in accordance with relevant procedures.

**Article 12** When fulfilling their work duties, the members of the Committee shall act with integrity, self-discipline and dedication and shall safeguard the interests of the Bank, and they shall not abuse their status or powers for personal gain.

**Article 13** Unless otherwise stipulated by law or authorized by the Board of Directors, the members of the Committee shall not disclose any information regarding the Bank without authorization.

#### **Chapter 4 Procedures and Rules for Meeting**

**Article 14** The Committee shall, on a quarterly basis, report to the Board of Directors on the progress of the audit work, and notify the senior management as well as the Board of Supervisors of the same.

**Article 15** The Committee shall consider the opinions put forward by the senior management before discussing the audit report issued by an intermediate agency on the Bank's operating results for the previous financial year. If the Committee has any objection or question concerning the audit report, it shall raise such queries with the agency and relevant parties. After the Committee has reviewed and approved the audit report, it shall submit written comments to the Board of Directors for consideration.

**Article 16** The Committee reports to the Board of Directors and may submit proposals to the Board of Directors based on business needs.

The resolutions and the voting results of a meeting of the Committee held in connection with matters subject to decision by the Committee as authorized by the Board of Directors shall be reported to the Board of Directors in writing.

In addition to such matters subject to decision by the Committee as authorized by the Board of Directors, the Committee shall, within the scope of its duties, discuss the proposals to be decided on by the Board of Directors and shall submit the results and opinions of the discussion to the Board of Directors for its consideration, decision-making and reference.

**Article 17** The working group of the Committee shall undertake the preliminary preparatory work such as collecting and consolidating materials to be considered by the Committee, proposing time, venue, convening method and agenda of the meeting, and submit them to the chairman of the Committee for decision-making.

**Article 18** The Committee shall formulate annual work plans, hold at least two (2) committee meetings each year, and timely convene extraordinary meetings if necessary. The Board of Directors, the chairman of the Board of Directors, the chairman of the Committee or more than half of the members of the Committee may propose to convene a meeting of the Committee according to regulatory requirements and business needs.

**Article 19** Voting at meetings of the Committee shall be by way of open ballot voting, and the resolutions of the meetings can be voted by two methods, including voting on physical meeting and by circulating written resolution. “Physical meeting” refers to a meeting held by means of on-site, video, telephone, etc., which ensures immediate communication and discussion among participants. “Circulating written resolution” refers to the meeting method in which resolution is made by separately serving it for consideration or circulating it for consideration.

**Article 20** A notice of a committee meeting shall be given to all the members of the Committee five (5) days before the committee meeting is held.

If any particular of a meeting, such as its time and venue, needs to be changed or if any proposal to be considered at a meeting needs to be added, altered or canceled, a written notice of such change shall be issued three (3) days prior to the scheduled date of such meeting, detailing the situation and the relevant contents and materials of the new proposal. If any such change is to be made within three (3) days prior to such scheduled date, the date of the meeting shall be postponed accordingly unless otherwise agreed upon by all the members of the Committee.

Where a meeting of the Committee has to be convened as soon as practicable in case of emergency, the notice of such meeting is not subject to the above timeframe.

The notice of a meeting shall specify when, where and how the meeting is held, the agenda of the meeting, matters to be discussed and relevant details, and the issuance date of the notice.

The notice of a meeting shall be delivered by hand, via fax, by post or via e-mail.

Meetings of the Committee shall only be held with the presence of more than half of the members of the Committee.

**Article 21** Members of the Committee shall attend meetings of the Committee in person and express clear opinions on the matters under consideration. If any member of the Committee is unable to attend a meeting for any reason, he/she shall state the reasons in writing and execute a power of attorney to authorize another member to attend such meeting on his/her behalf, which shall specify the scope of authorization, and the authorized person shall have no material interests in the matters to be discussed at such meeting.

**Article 22** Each member of the Committee shall be entitled to one (1) vote. Resolutions at a meeting of the Committee shall be subject to the votes of more than half of all the members of the Committee.

**Article 23** Members of the working group of the Committee may attend a meeting of the Committee without voting rights, and directors, supervisors, members of the senior management, and head of internal audit department of the Bank, and representative of external auditors may be invited to attend a meeting of the Committee without voting rights when necessary.

**Article 24** The Committee shall keep records, resolutions or minutes of all meetings. Members of the Committee present at a committee meeting shall sign on the records, resolutions and minutes of the committee meeting, which shall be kept by the Office of the Board of Directors.

**Article 25** The resolutions passed at meetings of the Committee and the voting results shall be reported to the Board of Directors in writing, and shall be also copied to the Committee of Supervisors.

**Article 26** The convening procedures, voting methods and resolutions passed at a meeting of the Committee must comply with relevant laws, regulations, the Articles, and these Terms of Reference. For matters not covered herein regarding the meeting process of the Committee, it is advisable to refer to the Rules of Procedure of the Board of Directors of the Bank.

**Article 27** All persons present at a meeting of the Committee shall be obliged to keep confidential all meeting records, materials and matters discussed at such meeting, and shall not disclose any relevant information without authorization.

## **Chapter 5 Supplementary Provisions**

**Article 28** With respect to any matter not covered in these Terms of Reference, or any conflicts between these Terms of Reference, on one hand, and any provisions under any laws, administrative regulations, departmental rules, rules of the securities regulatory authorities of the jurisdictions in which the Bank's shares are listed and the Articles, as promulgated or amended after these Terms of Reference come into force, on the other hand, relevant national laws, administrative regulations, departmental rules, rules of the securities regulatory authorities of the jurisdictions in which the Bank's shares are listed and the Articles shall prevail.

**Article 29** The Board of Directors has the power to interpret and to amend these Terms of Reference.

**Article 30** These Terms of Reference shall become effective upon consideration and approval by the Board of Directors. Once these Terms of Reference become effective, the original Terms of Reference of the Audit Committee of the Bank shall automatically become null and void.