

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

## **Chapter 1 General Provisions**

**Article 1** The Terms of Reference are hereby formulated in accordance with the Company Law of the People's Republic of China (the "**Company Law**"), the Corporate Governance Standards for Banking and Insurance Institutions, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**"), the Articles of Association of Huishang Bank Corporation Limited (the "**Articles**") and other relevant rules and regulations, to further improve the corporate governance structure of Huishang Bank Corporation Limited (the "**Bank**"), to enhance the scientific decision-making of the Board of Directors of the Bank, to improve the Bank's internal supervision mechanism, and to ensure sustainable, stable and sound development of the Bank.

**Article 2** The Audit Committee (the "**Committee**") is a specialised working body established by the Board of Directors of the Bank pursuant to the Articles. It is principally responsible for overseeing the Bank's internal control measures, reviewing the Bank's financial information and disclosure, examining, supervising and assessing the internal and external audit work of the Bank, exercising the functions and powers of the former Board of Supervisors as stipulated under the Company Law and regulatory requirements, and providing professional advice to the Board of Directors within the scope of its duties or making decisions on professional matters under the authorisation of the Board of Directors.

Where the relevant proposed resolutions of the Board of Directors fall within the scope of duties of the Committee, they shall first be submitted to the Committee for consideration, and the Committee shall provide its review opinions. Unless otherwise authorised by the Board of Directors in accordance with laws, the review opinions of the Committee shall not substitute 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 non-executive directors. A majority of the committee members shall be independent non-executive directors, and the convener shall be an independent non-executive director. At least one committee member of the Committee shall be an independent non-executive director who is a finance or accounting professional, and other committee members shall also possess professional knowledge and work experience in at least one area such as audit, finance, accounting or law. Eligible employee representative directors may become committee members of the Committee.

**Article 4** A former partner of the Bank's existing external audit firm shall not act as a committee member of the Committee within two years from the following date, whichever is the 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** Committee members and the chairman 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 and dismissal of the committee members and the chairman of the Committee shall be determined by the Board of Directors.

**Article 6** There shall be one chairman of the Committee. An independent non-executive director shall serve as the chairman of the Committee, and the chairman shall preside over the work of the Committee. If the chairman is unable to perform his/her duties, he/she shall designate a committee member to act on his/her behalf. If the chairman fails to make such designation, more than half of the committee members shall jointly elect one committee member to perform his/her duties on his/her behalf.

The principal duties of the chairman shall include:

- (1) presiding over meetings of the Committee and ensuring the effective operation and performance of duties of the Committee;
- (2) determining the agenda of meetings of the Committee;
- (3) ensuring that the Committee has clear and definite conclusions on the proposals considered;
- (4) proposing to convene meetings of the Committee;
- (5) reporting the work of the Committee to the Board of Directors on behalf of the Committee; and
- (6) other duties as stipulated by laws, regulations, rules, normative documents, the regulatory rules of the place where the Bank's shares are listed, the Articles and the Terms of Reference.

**Article 7** The term of office of the Committee shall be the same as the term of office of the Board of Directors. A committee member may serve consecutive terms if re-elected upon expiry of his/her term. If any committee member ceases to hold the position of director of the Bank during his/her term of office, he/she will automatically lose his/her qualification as a committee member. The Board of Directors shall reappoint the necessary number of committee members pursuant to the Articles and the Terms of Reference, and the term of office of the supplementary committee member shall expire upon the expiry of the term of office of the current session of the Committee.

If the resignation of a committee member will result in the composition of the Committee failing to comply with the requirements of laws and regulations, regulatory requirements or the Articles, the committee member who intends to resign shall continue to perform his/her duties until the date on which a new committee member assumes office.

**Article 8** The Committee shall establish a working group, which shall be responsible for the day-to-day liaison, organisation of meetings, meeting records, collection of materials and relevant research of the Committee. The work of the working group shall be led and organised by the Office of the Board of Directors, assisted by the Audit Department, and supported by relevant functional departments.

### Chapter 3 Principal Duties

**Article 9** The Committee shall perform the following principal duties and powers:

- (1) to examine and supervise the financial activities of the Bank, review the Bank's financial statements, annual reports and accounts, interim reports and quarterly reports, if prepared for publication, review important opinions on financial reporting contained in the statements and reports and other information related to its business operations and management activities, and conduct audit on areas such as its operating efficiency, profit distribution and capital utilisation;
- (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 the external auditors, and to review any major issues raised by the external auditors and the responses provided by the senior management in relation to the accounting records, financial accounts or control system;
- (3) to supervise the Bank's information disclosure work and the conduct of the Bank's directors and senior management in performing their information disclosure obligations;
- (4) to review the Bank's systems for internal control and financial monitoring, and conduct audit with regard to the Bank's material related party transactions, supervise the implementation of and compliance with the Bank's risk management system, discuss internal control measures with members of senior management and report the same to the Board of Directors. As delegated by the Board of Directors or on its own initiative, to analyse findings of material investigation relating to internal control measures and the senior management's response to such findings;
- (5) to supervise the implementation of the Bank's internal audit systems;
- (6) to organise and lead internal audit under the authorisation of the Board of Directors;
- (7) to take charge of the Bank's annual audit, to provide review opinions on the appointment, re-appointment or replacement by the Bank of external auditors who conduct regular statutory audit on the Bank's financial reports, and make recommendations to the Board of Directors, and to prepare and submit assessment reports regarding the truthfulness, accuracy, completeness and timeliness of information in the audited financial reports to the Board of Directors for review. The Committee shall require the appointed external auditors to provide details of the various services provided by them, their terms of appointment, fees charged and other relationships and matters which may affect the independence of the audit, and make an assessment on the independence of the external auditors and submit it to the Board of Directors for approval. The Committee shall deal with any issues relating to the resignation or removal of the external auditors;
- (8) to review the financial and accounting policies and practices of the Bank;
- (9) to take charge of the communication and coordination between the internal auditors and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Bank;

- (10) to evaluate the whistleblowing mechanism for the Bank's employees in relation to financial reporting, internal control or other irregularities, as well as the mechanism for the Bank to conduct independent and fair investigations on whistleblowing matters and take appropriate actions;
- (11) to supervise the conduct of directors and senior management in performing their duties, evaluate the performance of duties by directors and senior management, and make recommendations on the removal of directors and senior management who violate laws, administrative regulations, the Articles or resolutions of general meetings;
- (12) when the conduct of directors or senior management damages the interests of the Bank, to require such directors or senior management to make rectifications;
- (13) pursuant to the relevant provisions of the Company Law, to institute legal proceedings against directors other than committee members and senior management who, in performing their duties, violate laws, administrative regulations or the Articles and cause losses to the Bank;
- (14) to propose the convening of extraordinary general meetings, and to convene and preside over general meetings when the Board of Directors fails to perform its duties to convene and preside over general meetings as stipulated under the Company Law;
- (15) to submit proposals to general meetings;
- (16) to propose the convening of extraordinary meetings of the Board of Directors;
- (17) to conduct departure audits on directors and senior management as needed;
- (18) other matters as stipulated by laws, regulations, other normative documents and relevant regulatory authorities; and
- (19) any other matters as authorised by the Board of Directors of the Bank.

**Article 10** The Committee shall have the right to require the Bank's senior management to provide full support for the work of the Committee. The senior management shall ensure that information on the Bank's financial position, internal control, operations and business is provided to the Committee in a timely manner, and the information provided shall be accurate and complete, so as to assist the Committee in properly performing its duties.

**Article 11** The committee members of the Committee shall, before taking office, make a statement to the Board of Directors stating that they will have sufficient time and energy to perform their duties, and that they undertake to act with diligence. The chairman shall work at the Bank for no less than twenty working days each year. No committee member shall attend in person less than two-thirds of the total number of meetings held throughout the year, otherwise the committee member shall be removed or replaced in accordance with procedures.

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

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

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

**Article 14** The Committee shall, on a quarterly basis, report to the Board of Directors on the status of audit work and inform the senior management.

**Article 15** The Committee shall consider the opinions put forward by the senior management before discussing the audit report issued by the intermediary agency on the Bank's operating results for the previous financial year. If the Committee has any objections or questions concerning the audit report, it shall raise such queries with the intermediary 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 shall be accountable to the Board of Directors and may submit proposals to the Board of Directors as necessary for its work.

The meeting resolutions and voting results made by the Committee on matters authorised by the Board of Directors for decision-making shall be reported in writing to the Board of Directors.

Except for matters authorised by the Board of Directors for decision-making, the Committee shall discuss proposed resolutions of the Board of Directors within its scope of duties, and submit the discussion results and opinions to the Board of Directors for reference in its consideration and decision-making.

**Article 17** The working group of the Committee shall be responsible for the preliminary preparations for the Committee, such as the collection and organisation of materials for consideration by the Committee, and shall formulate the meeting time, venue, convening method and agenda, and submit the same to the chairman for decision.

**Article 18** The Committee shall formulate annual work plans, hold at least two committee meetings each year, and timely convene ad hoc 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 committee members may propose to convene a meeting of the Committee based on regulatory requirements and work needs.

**Article 19** Voting at meetings of the Committee shall be by way of open ballot voting. Meeting resolutions may be passed by way of voting at real-time meetings and written circulation. A "real-time meeting" refers to a meeting convened by way of on-site meeting, video conference, telephone conference or other means which can ensure real-time communication and discussion among participants. "Written circulation" refers to a meeting method whereby resolutions on proposals are passed by separate delivery for consideration or circulation for consideration.

**Article 20** The Committee shall give notice to all committee members five days before the meeting is convened.

If it is necessary to change the meeting time, venue or other matters, or to add, change or cancel meeting proposals, a written notice of change shall be issued three days before the originally scheduled date of the meeting, stating the circumstances and the relevant contents and materials of the new proposal. If the notice period is less than three days, the meeting date shall be postponed accordingly or the meeting shall be convened as scheduled after obtaining the approval of all committee members.

Where a meeting of the Committee needs to be convened as soon as possible in case of urgency, the meeting notice may not be subject to the aforesaid time limit.

The meeting notice shall include the meeting time, venue and convening method; meeting agenda, matters for discussion and relevant detailed materials; and the date of issue of the notice.

The meeting notice shall be delivered by hand, facsimile, post or email.

A meeting of the Committee may be held only with the attendance of more than half of the committee members.

**Article 21** Committee members shall attend meetings in person and express clear opinions on the matters under consideration. If a committee member is unable to attend a meeting in person for any reason, he/she shall state the reason in writing, and sign a power of attorney authorising another committee member to attend on his/her behalf. The proxy form shall specify the authorisation, and the authorised person shall have no material interest in the matters to be discussed at the meeting.

**Article 22** Each committee member of the Committee shall be entitled to one vote. Resolutions at a meeting must be passed by the votes of more than half of all committee members.

**Article 23** Members of the working group of the Committee may attend meetings of the Committee as non-voting attendees. The Bank's directors, senior management, head of the internal audit department and representatives of external auditors may be invited to attend meetings without voting rights when necessary.

**Article 24** The Committee shall keep records, resolutions or minutes of its meetings. Committee members present at a meeting shall sign on the records, resolutions or minutes of the 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 or fed back in writing to the Board of Directors.

**Article 26** The convening procedures, voting methods and resolutions passed at meetings of the Committee must comply with the relevant laws, regulations, the Articles and the Terms of Reference. Matters not covered in the Terms of Reference in respect of the meeting procedures of the Committee shall be implemented with reference to the rules of procedure for meetings of the Board of Directors of the Bank.

**Article 27** Personnel present at a meeting shall be obliged to keep confidential all meeting records, materials and matters discussed at such meeting, and shall not disclose any relevant information without authorisation.

## **Chapter 5 Supplementary Provisions**

**Article 28** Any matters not covered in the Terms of Reference, or any conflicts between the Terms of Reference and any laws, administrative regulations, departmental rules, provisions of the securities regulatory authorities of the jurisdictions in which the Bank's shares are listed and the Articles promulgated or amended after the Terms of Reference become effective, shall be implemented in accordance with the relevant national laws, administrative regulations, departmental rules, provisions of the securities regulatory authorities of the jurisdictions in which the Bank's shares are listed and the Articles.

**Article 29** The Board of Directors shall be responsible for the interpretation and amendment of the Terms of Reference.

**Article 30** The Terms of Reference shall become effective from the date on which they are considered and approved by the Board of Directors. From the date on which the Terms of Reference become effective, the original Terms of Reference of the Audit Committee under the Board of Directors of the Bank shall automatically lapse.