

**Chong Hing Bank Limited**  
**(the “Bank”)**

**Terms of Reference of the Audit Committee**

**1. Constitution**

The Audit Committee (the “Committee”) was established by resolutions of the Board of Directors of the Bank (the “Board”) on 16 November 1987 for oversight of the financial reporting system and internal control system of the Bank and its subsidiaries (the “Bank Group”).

**2. Membership**

- 2.1 Chairman and members of the Committee, comprising non-executive directors only, shall be appointed by the Board from time to time and shall consist of not less than three members, a majority of whom should be independent non-executive directors and the Chairman of the Committee should be an independent non-executive director with a background in accounting, banking or other financial industry.

**3. Secretary**

The Chief Auditor / Head of Internal Audit Division of the internal audit function shall be the secretary to the Committee. The Company Secretary or his / her deputy shall be the deputy secretary to the Committee.

**4. Attendance at Meetings**

- 4.1 The Committee may invite other persons (including directors, senior management and external advisors) to attend all or part of the Committee meetings from time to time upon such conditions as the Committee members consider desirable. However, only the Committee members shall be entitled to vote at the Committee meetings.
- 4.2 The Committee should meet regularly with the external auditors and Chief Auditor / Head of Internal Audit Division of the internal audit function. At least once a year the Committee shall meet with the external auditors in the absence of Executive Directors and Senior Management of the Bank.

**5. Frequency of Meetings and Quorum**

- 5.1 The Committee shall meet not less than three times a year and at such other times as the Chairman of the Committee may determine.
- 5.2 Committee meetings shall be convened by (or at the request of) the Chairman or members of the Committee. Committee meetings may also be called at the request of the external auditors if they consider necessary.

- 5.3 The quorum for meetings of the Committee shall be three members, the majority of whom, including the Chairman, should be independent non- executive directors.

**6. Proceedings of Meetings**

- 6.1 Meetings and proceedings of the Committee shall be governed by the provisions for regulating the meetings and proceedings of the Board as stipulated in the Bank's Articles of Association for the time being in force so far as the same are applicable thereto and are not replaced by any regulations imposed by the Board.
- 6.2 Questions arising at any meetings of the Committee shall be decided by a majority of votes, and in case of an equality of votes, the chairman of the meeting shall have a second or casting vote.
- 6.3 A written resolution signed or approved by a majority of the Committee members shall be as valid and effectual as a resolution passed at a meeting of the Committee duly convened and held.

**7. Authority**

- 7.1 The Committee is authorised by the Board to provide independent review and supervision of the Bank Group's financial reporting systems and internal control procedures and to investigate any activity within these Terms of Reference.
- 7.2 The Committee should be provided with sufficient resources to perform its duties. It is also authorised by the Board to seek independent professional advice at the Bank's expense to discharge its responsibilities as it shall deem appropriate and shall be responsible for selection and appointment of consultants to advise it on the Committee's matters.

**8. Operational principles**

- 8.1 The Committee shall conduct itself in accordance with the culture values and ethics of the Bank. The Committee expects that management and staff of the Bank will adhere to these requirements.
- 8.2 The Committee expects that all communication with management and staff of the Bank as well as with any external service providers will be direct, open and complete.

**9. Duties and Responsibilities**

The Committee shall have the following duties, responsibilities and discretion:

- 9.1 to make recommendations to the Board on the appointment, reappointment and removal of external auditors and to approve the audit fees and terms of engagement of the external auditors, and to address any questions of its resignation or dismissal;
- 9.2 to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences, and review any representation letter(s)

requested by the external auditors;

- 9.3 to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards and review any engagement of external auditors for the provision of non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
- 9.4 to review the half-year and annual reports and accounts before submission to the Board, focusing particularly on:
  - a. any changes in accounting policies and practices;
  - b. major judgmental areas and significant adjustments resulting from audit;
  - c. the going concern assumptions and any qualifications; and
  - d. compliance with accounting standards and regulatory requirements in relation to financial reporting;
- 9.5 in respect of 9.4 above, the Committee should liaise with the Board and senior management and must meet with the external auditors at least twice a year, and to consider any significant or unusual items that are, or may need to be, reflected in the Bank's half-year or annual reports and accounts and give due consideration to any problems and reservations that have been raised by the Board, the Committee, senior management, internal or external auditors;
- 9.6 to receive audit reports and review the external auditors' management letter, any material queries raised by the auditors to management in respect of accounting records, financial accounts or systems of control and their response, to ensure that the management's response to the issues are timely provided, and to oversee the implementation progress of the recommendations and necessary corrective actions;
- 9.7 to assess and consider the adequacy and effectiveness of the Bank Group's systems of internal control, financial reporting and controls, risk management and regulatory compliance, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions of the Bank Group;
- 9.8 to consider periodically to obtain an independent assessment (from the internal audit function, or an external consultant as appropriate) of the design and effectiveness of the risk governance arrangements of the Bank Group;
- 9.9 to monitor the Bank Group's financial reporting process and relevant output, including arrangement through which concerns about possible improprieties in matters of financial reporting can be raised, and to oversee the establishment of the Bank Group's accounting policies and practices (including quality of accounting estimates and disclosures) and review significant judgements made in financial reporting within the Bank Group's financial statements;

- 9.10 to appoint a suitably qualified Chief Auditor / Head of Internal Audit Division of the internal audit function, to review the performance of the Chief Auditor / Head of Internal Audit Division, to review and approve the annual remuneration of the internal audit function as a whole and budgeted resources of the internal audit function, to monitor the effectiveness of the internal audit function, and to ensure that the internal audit function has appropriate standing within the Bank Group;
- 9.11 to approve the audit policy and procedures drawn up and updated periodically by the internal audit function, and to approve, periodically, the audit plan as well as the related manpower and financial resources required after identifying the areas of risk within the Bank Group's operations to be covered; the audit plan should cover all of the businesses, operations and entities of the Bank;
- 9.12 to review audit and/or investigation reports submitted by the Chief Auditor / Head of Internal Audit Division of the internal audit function and to consider any major investigation findings and management's response on internal control matters, and to oversee the implementation progress of the recommendations;
- 9.13 to review the on-site examination reports of the Hong Kong Monetary Authority ("HKMA") and bring major findings to the attention of the Board;
- 9.14 to review arrangements that employees of the Bank can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters; and
- 9.15 to review annually the Committee's own effectiveness and terms of reference and recommend to the Board any necessary changes.

## **10. Reporting Procedures**

- 10.1 The Committee should report to the Board on a regular basis on the work performed by the Committee and its significant findings, and the progress made by the senior management in implementing any remedial actions to address deficiencies identified in the Bank Group's internal control systems (including those identified by internal and external auditors, the Committee itself or the HKMA) ; and
- 10.2 Minutes of the Committee meetings shall be circulated to all members of the Board at regular meetings of the Board. Full minutes of the Committee meetings should be kept by the Company Secretary. Within a reasonable time after the Committee meetings, draft and final versions of the minutes of such meetings should be sent to all Committee members for their comment and records respectively.

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