

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 procedures 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 at least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

2.2 Any former partner of the Bank’s existing auditing firm shall not be appointed as a member of the Committee for a period of one year from the later of (a) the date of his / her ceasing to be a partner of the auditing firm; or (b) the date of his / her ceasing to have any financial interest in the auditing firm.

3. Secretary

The Head of Internal Audit 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 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 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. Annual General Meeting

The Chairman of the Committee shall attend the annual general meeting of the Bank and be prepared to respond to any shareholders' questions on the Committee's decisions or recommendations or in his / her absence, another member of the Committee, or failing this, his / her duly appointed delegate.

8. Authority

- 8.1 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.
- 8.2 The Committee should be provided with sufficient resources to perform its duties. It is also authorized 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.

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 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 judgemental 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 controls, risk management and regulatory compliance, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function of the Bank Group;
- 9.8 to appoint a suitable qualified Head of Internal Audit; to review and monitor the effectiveness of the internal audit function, and to ensure the internal audit function is adequately resourced and has appropriate standing within the Bank Group;
- 9.9 to review audit and/or investigation reports submitted by the Head of Internal Audit and to consider any major investigation findings and management's response on internal control matters, and to oversee the implementation progress of the recommendations;
- 9.10 to review the HKMA's on-site examination reports and bring major findings to the attention of the board;
- 9.11 to review arrangements employees of the Bank can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters; and

9.12 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; 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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