

# **ZHONGYUAN BANK CO., LTD.**

## **中原銀行股份有限公司**

### **Rules of Procedure**

#### **Audit Committee of the Board of Directors**

#### **Chapter 1 General Provisions**

**Article 1** In order to improve the internal control and accounting system of Zhongyuan Bank Co., Ltd. (hereinafter referred to as the “Bank”), the Audit Committee of the Board of Directors (hereinafter referred to as the “Audit Committee”) is hereby established and these rules of procedure of the Audit Committee of Zhongyuan Bank Co., Ltd. (hereinafter referred to as the “Rules of Procedure”) are formulated in accordance with relevant laws, administrative regulations, rules, normative documents, such as the Company Law of the People’s Republic of China, the Commercial Banking Law of the People’s Republic of China, the Corporate Governance Guidelines for Banking and Insurance Institutions, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Hong Kong Listing Rules”) and the Articles of Association of Zhongyuan Bank Co., Ltd. (hereinafter referred to as the “Articles of the Bank”).

**Article 2** The Audit Committee is a special working agency under the Board of Directors of the Bank, and is accountable to the Board of Directors. It shall be responsible to give professional advice to the Board of Directors or decide on special matters with authorization from the Board of Directors.

**Article 3** The Audit Committee shall on a regular basis exchange the development on operations and risks of the Bank with the senior management and department officers, deliver opinions and give suggestions.

**Article 4** The Audit Committee shall continuously follow up changes and its impacts on matters related to the terms of reference of the Audit Committee, for which timely attention from the Audit Committee shall be sought.

#### **Chapter 2 Composition**

**Article 5** The Audit Committee shall be consisted of at least three directors and all of them shall be non-executive directors and shall possess professional knowledge and work experience in at least one area such as finance, auditing, accounting or law. The majority of the members and the chairman of the Committee shall be independent directors and at least one of them shall have appropriate professional qualifications under the Hong Kong Listing Rules or accounting or related financial management expertise. Employee directors may serve as members of the Audit Committee. The chairman shall be serving the Bank for no less than 20 working days each year.

**Article 6** The composition and change to the Audit Committee shall be nominated by the chairman of the Board of Directors subject to the decision of the Board of Directors.

**Article 7** The duties of the chairman of the Committee shall include:

- (1) to preside over the Committee and ensure the Committee to work efficiently and discharge its duty;
- (2) to convene and preside the meeting of the Committee and determine the meeting agenda for each meeting of the Committee in accordance with these Rules of Procedure;
- (3) to ensure the Committee meeting can discuss appropriate matters and make clear conclusion for each subject matter;
- (4) to attend the annual general meeting to answer the questions of shareholders. Should he/she fail to attend, another member of the Audit Committee shall be delegated to attend the meeting by the chairman of the Board of Directors; failing which, an appropriate representative shall be appointed.

When the chairman is unable to perform his/her duties, he/she shall appoint and delegate his/her duty to another member of the Committee.

**Article 8** The term of office of the members of the Audit Committee coincides with that of the directors and members of the Committee may serve consecutive terms if re-elected upon the expiration of their terms. If any member of the Committee ceases to be a director of the Bank or any member who should be an independent director or a non-executive director no longer possess such qualifications as required by relevant laws and regulations, Hong Kong Listing Rules or the Articles of the Bank, he/she shall automatically be disqualified as a member; where the number of members and proportion of independent directors of the Audit Committee are not in compliance with relevant laws and regulations, Hong Kong Listing Rules or the Articles of the Bank, or none of the members being an independent director who possesses the appropriate professional qualifications as required by the Hong Kong Listing Rules or possesses suitable accounting or relevant financial management expertise, the Board of Directors shall conduct re-elections or by-elections according to the Articles of the Bank and the provisions of these Rules of Procedure.

**Article 9** Any member of the Audit Committee may be replaced in any one of the following circumstances subject to discussion and approval by the Board of Directors:

- (1) he/she tenders his/her resignation in writing;
- (2) other circumstances in which he/she is considered by the Board of Directors not suitable to serve as a member.

**Article 10** A former partner of the Bank's existing external auditing firm for our accounts shall be prohibited from acting as a member of the Audit Committee for a period of two years from the date of his/her ceasing to be a partner of such firm or to have any financial interest in such firm, whichever is later.

### **Chapter 3 Responsibilities**

**Article 11** The major responsibilities of the Audit Committee are as follows:

- (1) overseeing the Bank's risks, compliance, and financial position in a comprehensive manner, continuously assessing the effectiveness of the risk management and compliance management system, and monitoring the overall financial performance and internal control system;
- (2) examining the Bank's finances and reviewing the Bank's financial information and its disclosure; the Audit Committee shall examine the Bank's financial activities, review the Bank's financial and accounting policies and practices, supervise the Bank's financial controls, major financial decisions and their implementation as well as review the Bank's financial accounting reports and the financial information and its disclosure in periodic reports, provide opinions on their authenticity, accuracy and completeness, and supervise the rectification of related issues;
- (3) making recommendations to the Board of Directors on the appointment, re-appointment or replacement of external auditors being responsible for audit of the Bank, including the appointment, re-appointment or replacement of external auditors, approving the remuneration and terms of engagement of external auditors and dealing with any questions in relation to its resignation or dismissal; and making recommendations on the appointment or dismissal of the financial controller;
- (4) monitoring and evaluating the independence and objectivity of the external auditor and effectiveness of the audit process. The Audit Committee shall discuss with the external auditor on the nature, scope of the audit and relevant reporting obligations before the audit commences;
- (5) developing and implementing the policy on engaging an external auditor to supply non – audit services. For the purpose of this provision, an external auditor shall include any firm under the common control with, ownership or management rights of the firm responsible for audit, or a third party who has reasonable knowledge of all the relevant information and would under reasonable circumstances judge whether such firm is a firm engaging in part of the local or international operations of the firm responsible for the audit. The Audit Committee shall report and make recommendations to the Board of Directors on any matters where actions or improvements are needed;
- (6) considering and reviewing the financial statements, annual reports and accounts, interim reports and quarterly reports (if to be published) in respect of results of operations of the Bank for the preceding year, reviewing the major opinions about the financial reporting set out in the statements and reports, analyzing the authenticity, accuracy, completeness and timeliness of the information set out in audited financial reports and submitting to the Board of Directors comments in respect of the review. In reviewing these statements and reports before submission to the Board of Directors, the Audit Committee shall focus particularly on:
  1. any changes in accounting policies and practices;

2. major judgement area;
3. significant adjustments resulting from audit;
4. going concern assumptions and any qualifications;
5. compliance with accounting standards;
6. compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting.

Member of the Audit Committee shall maintain contact with the Board of Directors and the senior management. The Audit Committee shall meet at least twice annually with the external auditor of the Bank and shall consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and give due consideration to any matters that have been raised by the Bank's staff responsible for the accounting and financial reporting function, head of the compliance department or external auditor;

- (7) reviewing the internal control evaluation report and related materials, evaluating the establishment and implementation of the Bank's internal controls, reviewing and supervising the internal control (including financial control) system of the Bank, and supervising the effective implementation of internal controls;
- (8) discussing the risk management and internal control system with the management and ensuring that the management has duly performed its duties and established an effective system. The discussion shall include the adequacy of resources, staff qualification and experience, training programmes and budget of the Bank's accounting and financial reporting functions;
- (9) considering major investigation findings on risk management and internal control matters as authorized by the Board of Directors or on its own initiative and management's responses to these findings, including but not limited to: (1) paying attention to and understanding the reviews, evaluations, and recommendations made by internal and external audits regarding the Bank's internal controls; (2) studying the management letters from external auditors, and any major queries raised regarding accounting records, financial accounts, or internal controls and management's responses; (3) promoting the Board's attention to issues raised in management letters;
- (10) coordinating the communication between internal auditors and external auditors and ensuring the coordination between the work of the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Bank; reviewing and monitoring the effectiveness of the internal audit function, guiding the internal audit department to independently perform its audit oversight duties, conducting inspections and supervision of the Bank's operational decisions, risk management and internal controls, and urging rectification;

- (11) reviewing the external auditor's management letter, any material queries raised by the external auditor to the management about accounting records, financial accounts or control systems and the management's responses;
- (12) ensuring that the Board of Directors will provide a timely response to the issues raised in the external auditor's management letter;
- (13) acting as the key representative body for overseeing the Bank's relations with the external auditor;
- (14) reviewing the following arrangements of the Bank: raising confidentially concerns over possible improprieties by the employees of the Bank in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions by the Bank and shall formulate a whistle-blowing policy and system for the employee and parties, such as customers and suppliers, with business relationship with the Bank to raise concerns to the Audit Committee in a confidential manner over any improper matters which might be related to the Bank:
- (15) reporting to the Board of Directors on the above matters;
- (16) supervising the performance of duties and fulfillment of responsibilities by directors and senior management, establishing and improving an evaluation system for the performance of duties by directors and senior management, evaluating the performance of duties by directors and senior management; making recommendations for the removal of any director or senior management who violates laws and regulations, the Articles of the Bank, or resolutions of the general meeting;
- (17) requiring directors and senior management to correct their actions when such actions harm the interests of the Bank;
- (18) initiating legal proceedings, in accordance with the law, against directors and senior management whose performance of duties violates laws, administrative regulations, or the provisions of the Articles of the Bank and causes losses to the Bank;
- (19) the Audit Committee may propose the convening of extraordinary general meetings, submit proposals to general meetings, and convene and preside over general meetings when the Board of Directors fails to fulfill its duties of convening and presiding over general meetings as stipulated by the Company Law;
- (20) the Audit Committee may propose the convening of extraordinary meetings of the Board of Directors and submit proposals to meetings of the Board of Directors;
- (21) other responsibilities that should be discharged by the Audit Committee as required by the securities regulatory and administrative authorities under the State Council and the Hong Kong Listing Rules;

- (22) other powers as authorized by laws, regulations, regulatory provisions, and the general meeting or the Board of Directors, and exercising the powers of the Supervisory Committee as stipulated in the Company Law.

**Article 12** The functional department of the Bank relating to matters to be considered and reviewed at the meeting of the Audit Committee shall prepare documents for meetings such as resolutions proposed for review and approval and related background within a prescribed time. Personnel and functional departments related to the Bank should accept questions in respect of the matters in these terms of reference raised by the Audit Committee and accomplish such special work passed to them.

## **Chapter 4 Work Procedures**

**Article 13** The Audit Committee shall be given resources sufficient to discharge its duties.

**Article 14** The agencies of the Audit Committee shall prepare materials for the Audit Committee meeting as requested by the Audit Committee and submit the same to the Audit Committee for consideration.

**Article 15** The Audit Committee convenes meetings based on the relevant information provided by the agencies of the Board of Directors, which shall then be discussed, decided on or proposed for submission to the Board of Directors or be decided on within the scope of authorization of the Board of Directors.

Where opinions of the Audit Committee on matters in respect of selection, appointment, resignation or removal of an external auditors are not agreed on, the Bank shall set out the representation of the Audit Committee elaborating its proposal and the grounds of the Board of Directors for having different opinions in the section “Corporate Governance Report” of the annual report.

## **Chapter 5 Rules for Procedures**

**Article 16** Meetings of the Audit Committee shall be convened at least once every year when proposed by the chairman or over half of the members. Notices of meeting shall be lodged with all the members before convening of the meetings.

**Article 17** Members of the Audit Committee shall discharge duties conscientiously and attend meetings and activities of the Committee. Members of the Audit Committee shall attend the Committee meetings in person. If he/she cannot attend the meeting, he/she shall authorize other Committee member as proxy with written proxy.

The proxy form shall specify the names of the proxy, matters in respect of which the proxy is appointed, scope of authorization and the validity period, and be signed by the appointor.

The committee member attending the meeting as a proxy shall exercise its rights within the scope of authorization. Members who do not attend such meeting and do not authorize other members to attend such meeting as his or her proxy, will be deemed to abstain from voting on such meeting.



**Article 18** The quorum of a meeting of Audit Committee is two third of members of the Committee. Voting at meetings of the Audit Committee shall be by hand or by poll. Each member shall have one vote. A resolution shall be passed if approved by more than half of the total number of the Committee members.

**Article 19** Meetings of the Audit Committee can be convened by way of circulation of written proposal.

**Article 20** The Audit Committee may engage intermediary or other professionals for their professional advice on the decisions with reasonable charges to be borne by the Bank.

**Article 21** The Audit Committee shall keep minutes of meeting. Members present at the meeting and the note-taker shall sign the minutes. The drafts and final versions of the minutes shall be delivered to all members of the Committee within a reasonable period after the meeting. The drafts of minutes are for all members' comments and the final minutes are for record. The minutes of meeting, being records of the Bank, shall be kept by the agencies of the Board of Directors. The minutes shall be available for inspection within a reasonable period by the members of the Committee if any of them has given reasonable notice.

Minutes of the Audit Committee meetings shall include the following:

- (1) the date and place of the meeting;
- (2) the names of members attending the meeting;
- (3) the agenda of the meeting;
- (4) the summaries of members' speeches (including any doubt raised or opinion expressed by the members);
- (5) the results of the voting for each resolution;
- (6) other material matters.

**Article 22** The convening procedures, voting method and resolutions passed at a meeting must be in compliance with the requirements of the relevant laws, regulations, the Hong Kong Listing Rules, the Articles of the Bank and these Rules of Procedure.

## **Chapter 6 Supplementary Provisions**

**Article 23** Any matters that are not covered herein or if any of these Rules of Procedure conflicts with any laws, administrative regulations, departmental rules promulgated subsequently, or the requirements of the regulatory authority governing securities at the place where the shares of the Bank are listed, the Hong Kong Listing Rules and the Articles of the Bank duly amended thereafter, it shall be handled in accordance with relevant laws, administrative regulations, departmental rules, the requirements of the regulatory authority governing the securities at the place where the shares of the Bank are listed, the Hong Kong Listing Rules and the Articles of the Bank.

**Article 24** Unless otherwise specified, the terms used herein shall have the same meanings as those in the Articles of the Bank.

**Article 25** The Board shall have the right to interpret these Rules of Procedure.

**Article 26** These Rules of Procedure shall become effective from the date of consideration and approval by the Board of Directors.