

# **Bank of Gansu Co., Ltd.**

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

### **Chapter I General**

**Article 1** In order to meet the requirements for establishing the mechanism of a modern financial corporation, to optimize the corporate governance structure of Bank of Gansu Co., Ltd. (the “Bank”), to regulate the operation of the Audit Committee of the Board of Directors and to ensure the scientific and efficient decision making of the Audit Committee, these terms are hereby formulated in accordance with the Company Law of the People’s Republic of China (the “Company Law”), the Audit Law of the People’s Republic of China, the Guidelines on Corporate Governance of Commercial Banks, the Guidelines on Due Diligence Performance of the Boards of Directors of Joint Stock Commercial Banks (Provisional), the Guidelines on Internal Audit of Commercial Banks, the Articles of Association of Bank of Gansu Co., Ltd. (the “Articles”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”), the Notice on Matters Concerning the Alignment of Corporate Governance Supervision Regulations with the Company Law and other relevant laws and regulations.

**Article 2** The Audit Committee of the Board of Directors is a specialized working body established in accordance with relevant regulations and based on the Bank’s actual needs, responsible for conducting supervision, inspection and appraisal on internal control, financial information and internal auditing of the Bank and making recommendations accordingly.

**Article 3** The Audit Committee of the Board of Directors is accountable to the Board. If necessary, the Committee can engage external specialists for professional advice upon the authorization of the Board, and the expenses incurred will be borne by the Bank.

**Article 4** The Audit Committee of the Board of Directors sets an office (acted concurrently by the Audit Department of the Bank) for managing daily matters of the Audit Committee. Major responsibilities of the office include daily contact within the Committee, meeting preparations of the Committee, including preparation of meeting notice, preparation of meeting materials, production and execution of minutes and resolutions for meetings, preservation of meeting files of the Committee and other work assigned by the Committee.

### **Chapter II Composition and Term of Office**

**Article 5** The Audit Committee comprises three or more non-executive Directors, among which the majority (more than half) of members shall be independent non-executive directors.

**Article 6** The Audit Committee shall have a chairman to take charge of the work of the Committee. The chairman shall be nominated by the Chairman of the Board of Directors, elected by the Committee and then approved by the Board. The role of chairman of the Audit Committee shall be undertaken by an independent non-executive Director with professional accounting qualification.

**Article 7** Members of the Audit Committee shall be nominated by the Chairman of the Board of Directors and elected by the Board of Directors. Removal of members of the Audit Committee shall be determined by the Board of the Directors.

**Article 8** Members of the Audit Committee shall have certain working experience in financial, accounting, auditing and legal works, and be equipped with relevant professional expertise or working background. At least one of the members of the Audit Committee shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules.

**Article 9** The term of office of the Audit Committee shall be identical with that of the Board of Directors, and members of the Committee may be re-elected and re-appointed upon expiration of their terms of office. If any member ceases to be a director of the Bank during his/her term of office or any member who shall have been qualified as an independent non-executive director no longer possesses the independence as required by the Articles, he/she shall automatically be disqualified as a member. The Board of Directors shall fill the vacancy according to the preceding Clauses 5 to 8. The term of office of the replacing member shall be identical with that of his/her term as a Director or an independent non-executive director.

No member of the Audit Committee should be relieved of the duty without any reason before the expiration of the term of office, unless there is a situation to render the member unfit for the role according to the Company Law, the Articles or the Hong Kong Listing Rules.

**Article 10** No former partner of the Bank's current external auditing firm may serve as a member of the Audit Committee within two years from the following date (whichever is later):

- (I) the date on which such former partner ceases to be a partner of such accounting firm; and
- (II) the date on which such former partner ceases to be entitled to financial benefits from such accounting firm.

### **Chapter III Responsibilities and Authorities**

**Article 11** The Audit Committee exercises the powers and functions of the board of supervisors as set out in the Company Law, and its principal responsibilities and authorities include:

- (I) the Audit Committee shall monitor the completeness of the Bank's financial statements, annual reports and accounts, interim reports and quarterly reports (if prepared for publication), and review important opinions on financial reporting as set out in the statements and reports. The following matters should be reviewed in particular by the Committee before submitting the relevant statements and reports to the Board of Directors:
  - 1. any change in accounting policies and practices;
  - 2. areas involving material judgments;
  - 3. material adjustments as a result of the audit;
  - 4. the going concern assumption and any qualified opinion;

5. compliance with accounting standards; and
  6. compliance with the Hong Kong Listing Rules, the requirements on financial reporting and other laws and regulations;
- (II) with regard to (I) above:
1. members of the Committee shall liaise with the Board of Directors and senior management. The Committee shall hold at least two meetings with the external auditing firm of the Bank each year; and
  2. the Committee shall consider any material or unusual matter that is disclosed, or required to be disclosed in such reports and accounts and shall give due consideration to any matter raised by the staff responsible for the accounting and financial reporting functions, compliance officer or auditors of the Bank;
- (III) the Audit Committee is primary responsible for making recommendations to the Board of Directors on the appointment, reappointment or dismissal of an external auditor, approving the compensation and terms of engagement of the external auditor, and handling any matter regarding the resignation or dismissal of the external auditor;
- (IV) the Audit Committee shall examine and supervise the independence and objectivity of the external auditor and the effectiveness of audit procedures in accordance with applicable standards, and discuss with the external auditor about the nature and scope of audit and their reporting duties before commencement of the audit;
- (V) the Audit Committee shall formulate and implement policies on the engagement of external auditor for non-audit services. For this purpose, “external auditor” includes any entity that is under common control, ownership or management with the audit firm, or any body which a third party with reasonable knowledge of all relevant information would determine in a reasonable circumstance that such body is a part of the local or international business of the audit firm. The Audit Committee shall report to the Board of Directors on any actions or improvements needed and make recommendations. The Audit Committee shall ensure that the provision of non-audit services by the external auditor does not impair its independence or objectivity;
- (VI) the Audit Committee shall act as the key representative between the Bank and the external auditor and monitor the relationship between them;
- (VII) the Audit Committee shall examine the Bank’s financial control, risk management and internal control system;
- (VIII) the Audit Committee shall discuss the risk management and internal control system with the management of the Bank to ensure that the management of the Bank has performed its duties to develop an effective system. The discussion shall cover the adequacy of resources, qualification and experience of employees, training of employees and the relevant budget for accounting and financial reporting of the Bank;

- (IX) the Audit Committee shall study the material investigation of risk management and internal control and feedback of management on the investigation of its own accord or under the instruction of the Board of Directors;
- (X) if the Bank has established its internal audit function, the Audit Committee shall ensure the cooperation between the internal and external auditors, ensure the internal audit function is provided with adequate resources to operate in the Bank and has appropriate standing in the Bank, and review and monitor its effectiveness;
- (XI) the Audit Committee shall review the financial and accounting policies and practices of the Bank and its subsidiaries;
- (XII) the Audit Committee shall review the Statement of Audit to the management from the external auditor, any material query raised by the auditor to the management about accounting records, financial accounts or control systems and response of the management;
- (XIII) the Audit Committee shall ensure the prompt response of the Board of Directors to the questions raised in the Statement of Audit to the management from the external auditor;
- (XIV) the Audit Committee shall report to the Board of Directors on the matters specified in Code Provision D3.3 of the Corporate Governance Code in Appendix C1 to the Hong Kong Listing Rules;
- (XV) the Audit Committee shall study other matters raised by the Board of Directors;
- (XVI) where the Board of Directors disagree with the view of the Audit Committee on the selection, appointment, removal or dismissal of the external auditor, the Bank shall include in the Corporate Governance Report a statement explaining the Committee's recommendation and the reason(s) of disagreement of the Board of Directors;
- (XVII) the Audit Committee shall coordinate the communication and cooperation between the internal auditors and external auditors and shall ensure the internal audit function is provided with sufficient resources to operate in the Bank and has appropriate standing to carry out their duties;
- (XVIII) the Audit Committee shall review the following arrangements of the Bank: employees may anonymously raise concerns on any possible irregularity in relation to financial reporting, internal control or other activities of the Bank and make sure there are proper arrangements to demand a fair and independent investigation and to take appropriate action on such matters by the Bank;
- (XIX) the Audit Committee shall perform such other duties as required by the laws, administrative regulations, departmental rules, normative documents, the Hong Kong Listing Rules, the Articles and as delegated by the Board of Directors.

**Article 12** The chairman of the Audit Committee or in his absence, another member of the Audit Committee or failing this, his duly appointed delegate, shall attend the annual general meeting and respond to inquiries raised at the meeting on the work and responsibilities of the Audit Committee.

**Article 13** The Audit Committee may carry out any investigation within its terms of reference, or require the President and other senior management to organize the investigation and report the findings.

#### **Chapter IV Decision-making Procedures**

**Article 14** The office of the Audit Committee shall be responsible for the preliminary preparation for decision-making, researching and compiling information on implementation of the management system over operation, financial and internal management across all levels of the Bank.

**Article 15** The written materials that the office of the Audit Committee shall provide to the Audit Committee include:

- (1) the internal control report of the Bank;
- (2) the auditors' report of the Bank; and
- (3) other materials deemed necessary by the Audit Committee.

**Article 16** The Audit Committee shall hold meetings to review and analyze the auditors' report submitted by the office and submit the comments and relevant materials to the Board of Directors for consideration.

#### **Chapter V Rules of Proceedings**

**Article 17** The Audit Committee shall hold at least two meetings every year, so as to review and discuss the interim and annual financial statements of the Bank. The notice of the meeting shall be sent to all members and other invited attendees three days before the meeting (excluding the date of the meeting) (or within any other period agreed by the members of the Audit Committee), together with the documents of the meeting. The extraordinary meetings may be convened upon the proposal of two or more members, or if the chairman deems it necessary. The meetings shall be chaired by the chairman of the Committee, and if he/she is unable to attend the meeting, he/she shall entrust another member in writing to preside over the meeting.

**Article 18** The quorum of a meeting of the Audit Committee shall be more than two thirds (inclusive) of the members. If a member is unable to attend the meeting for any reason, he/she may appoint another member to attend on his/her behalf.

The proxy form shall be in writing and shall specify the names of both delegating party and the proxy, entrusted matters, the scope of authorization by the delegating party, the term, brief opinions on each proposal and instructions on voting intention for the proposals, and shall be signed by the delegating party and the proxy.

Member attending the meeting on behalf of other members shall exercise the power of members within the scope of authorization.

**Article 19** A proxy Director attending the meeting shall present a written letter of authorization. The letter of authorization shall specify:

- (I) the names of the principal and the proxy;
- (II) the brief opinion on each proposal of the principal;
- (III) principal's scope of authority, the term of validity and instruction on voting intention for the proposal; and
- (IV) principal's signature, date of the signature, etc.

The written letter of authorization shall be signed by the principal and the proxy.

The Director who authorizes another Director to sign the written opinions for confirmation on the regular report shall make a special authorization in the letter of authorization.

The proxy Director shall present the written letter of authorization to the meeting host, and describe the circumstances of attendance by proxy on the attendance book.

The Director attending a meeting on behalf of another Director shall exercise the rights as a director within the scope of authorization.

**Article 20** A member of the Audit Committee who neither attends a meeting in person nor appoints another member to attend on his/her behalf shall be deemed absent from the meeting. A member of the Audit Committee who fails to attend meetings for two consecutive times shall be deemed unable to fulfil his/her duties. The Board of Directors may dismiss him/her from the role as a member.

**Article 21** Each member shall have one vote. The voting methods include showing of hands or by open vote.

Resolutions on the meeting shall be passed by more than half of all the members. The resolutions and voting results of the meeting shall be reported to the Board of Directors in writing for documentation.

**Article 22** The meetings of the Audit Committee may be held by way of on-site meeting and circulation of written resolution.

The aforesaid "on-site meeting" refers to a meeting held onsite or through video, telephone, etc., which can guarantee the participants to exchange in real time. The aforesaid "circulation of written resolution" refers to a meeting method in which resolutions are made on proposals through separate delivery for deliberation or circulation for deliberation.

**Article 23** The Audit Committee may invite non-Committee Directors, the President or other senior management officers of the Bank to attend its meeting, when necessary. Where a Committee member has related relationships with issues under deliberation, such member may be required to abstain from voting on relevant issues.

**Article 24** The Audit Committee shall keep minutes of its meetings, and members present at the meetings shall sign the minutes.

Minutes of the Audit Committee meetings shall include the followings:

- (I) the date and place of the meeting;
- (II) the names of members and proxies attending the meeting;
- (III) the names and role of attendees;
- (IV) the agenda of the meeting;
- (V) the key points of members' speeches (including any concerns raised or disagreement expressed by the members);
- (VI) the results of the voting for each resolution; and
- (VII) other material matters.

The Audit Committee shall keep minutes of its meetings and members present at the meeting shall sign on the minutes. A member shall have right to request certain explanatory notes to be made in the meeting minutes regarding his/her speeches at the meeting. Such minutes, resolutions and other documents shall be kept by the office of the Audit Committee and filed at the end of the year.

**Article 25** Members attending the meeting shall assume confidentiality obligations on matters considered at such meeting, and shall not disclose any relevant information without explicit authorization of the Board of Directors.

## **Chapter VI Miscellaneous**

**Article 26** In the event of any matter not covered by these terms or any conflict between these terms and the subsequently promulgated laws, regulations, departmental rules, requirements of the securities regulatory authorities of the place where the shares of the Bank are listed, the Hong Kong Listing Rules or the Articles amended pursuant to the legitimate procedures after the terms become effective, relevant national laws, regulations, departmental rules, requirements of securities regulatory authorities of the place where the shares of the Bank are listed, the Hong Kong Listing Rules and the Articles shall prevail.

**Article 27** These terms are subject to the interpretation and revision by the Board of Directors.

**Article 28** These terms shall take effect and be implemented from the date of consideration and approval by the Board of Directors. The original Terms of Reference for the Audit Committee of the Board of Directors of the Bank shall automatically lapse upon the effective date of these terms.