

# China Pacific Insurance (Group) Co., Ltd.

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

### Chapter 1 General Provisions

**Article 1** In order to perfect the corporate governance structure and strengthen the decision-making functions of the Board to better conduct the audit in advance and in a professional manner, and to ensure the effective supervision of the management by the board of directors (the “**Board**”), in accordance with the *Company Law of the People’s Republic of China*, the *Code of Corporate Governance for Listed Companies*, the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* and the *Code on Corporate Governance Practices in Appendix 14 thereto* (collectively, “**Hong Kong Listing Rules**”), the *Guiding Opinions Concerning Regulating the Governance Structure of Insurance Companies (Trial Implementation)*, *Guidelines on the Operation of the Board of Directors of Insurance Companies*, *Work Rules for Internal Audit of Insurance Institutions* and the Articles of Association of China Pacific Insurance (Group) Co., Ltd. (the “**Articles of Association**”), the relevant resolutions of the shareholders’ general meeting and other relevant provisions, the Company has particularly established the audit committee of the Board and formulated these Terms of Reference.

**Article 2** The audit committee of the Board shall be a decision-making authority ancillary to the Board established in accordance with the Articles of Association of the Company and shall conduct its works as authorized by the Board. The audit committee shall be mainly responsible for the communication, supervision and verification of the internal and external audit issues, and for exercising on behalf of the Board the functions of supervising and inspecting the management in operating the business and in formulating and executing of the internal control system.

### Chapter 2 Composition

**Article 3** The audit committee shall consist of a minimum of three directors who are not concurrently members of the management, among which at least half of them shall be independent directors. Members of the audit committee must have appropriate financial and legal expertise relevant to their responsibilities and at least one of them shall be a financial or audit professional.

**Article 4** A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the audit committee for a period of one year from the date of his ceasing:

- (1) to be a partner of the firm; or
- (2) to have any financial interest in the firm,

whichever is later.

**Article 5** The audit committee shall have one chairman who must be an independent director of the Company. The member of the audit committee shall be nominated by the chairman of the Board or at least one-half of the independent directors or at least one-third of all directors, and shall be elected and appointed by the Board.

**Article 6** The term of office of the members of the audit committee shall be the same as that of the directors, and when the term of office of an member expires, he may serve a consecutive term subject to re-election. During the term of office, if any member no longer serves as director or independent director of the Company, he shall automatically lose his eligibility for membership, and the Board shall fill the vacancy to the number required in accordance with these terms of reference.

During his term of office, a member may tender resignation, which shall become effective upon approval by the Board. The Board shall fill the vacancy to the number required in accordance with these terms of reference.

The committee shall not dismiss the members without reason before the term of office of a member expires.

### **Chapter 3 Responsibilities and Authority**

**Article 7** The main responsibilities and authority of the audit committee shall be as follows:

- (1) to be primarily responsible for nominating external auditors, making recommendations to the Board on the appointment, removal and remuneration of the external auditor, and to approve the remuneration and terms of engagement of the external auditors, and any issues relating to the resignation or dismissal of the external auditors;
- (2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The audit committee should discuss with the external auditor the nature and scope of the audit and the reporting obligations before the audit commences. The audit committee may also review and monitor the independence of the external auditors by any of the following channels:
  - (i) checking all relationships between the Company and the external auditors (including non-audit services);
  - (ii) obtain from the external auditor annually, information about policies and processes for maintaining its independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and
  - (iii) meet with the external auditor, at least annually, in the absence of the management of the Company, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditor may wish to raise;

- (3) to develop and implement policy on the engaging an external auditor to supply non-audit services. For this purpose, external auditors includes any firm directly responsible for the audit, any entity that is under common control, ownership or management with the audit firm and any entity that can be reasonably concluded to be part of the audit firm nationally or internationally. The audit committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (4) to examine and advise the Board on the management regulations of the internal audit system of the Company;
- (5) to monitor the independence of the internal audit department of the Company and the internal audit system of the Company and the implementation, and to provide guidance to ensure the effectiveness of the internal audit system and to review and approve the annual plan and the budget for internal audit work of the Company and the human resources plan, and to make proposals to the Board and to be responsible for the regulation and implementation of such proposals once approved by the Board;
- (6) to assist in the communication between the internal and external auditors, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit personnel is adequately resourced and has appropriate standing, and to review and monitor the effectiveness of the internal audit system;
- (7) to examine the financial information of and the disclosures made by the Company, including monitoring the integrity of the Company's financial statements and the annual reports and accounts, half-year reports and quarterly reports, and to review significant financial reporting judgments contained in such statements and reports. Prior to submitting the annual reports and accounts, half-year reports and quarterly reports to the Board, the audit committee shall examine such reports and accounts and focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (8) Regarding paragraph (7) above:
  - (i) the audit committee should liaise with the Board and senior management and the audit committee must meet, at least twice a year, with the external auditor of the Company;

- (ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or external auditor;
- (9) to discuss with the external auditor on any issues and queries identified during the course of auditing the interim and annual accounts, and on any other matters that the external audit may wish to discuss (and where necessary, the discussion may be conducted in the absence of the management);
- (10) to review the financial controls and to examine on a regular basis the financial control reports and the internal evaluation reports prepared by the internal audit department, to examine whether or not the internal control systems of the Company and its subsidiaries and branches respectively are scientific, reasonable and effective and to examine the implementation of such systems as well, to make recommendations on pursuing liability against any individual who is held responsible for any irregularity and to advise the Board on issues relating to financial control, internal control, risk and compliance and to give any recommendation on the relevant improvements;
- (11) to oversee the internal control system on an ongoing basis, and to ensure that a review of the comprehensiveness and effectiveness of the Company and its subsidiaries' internal control system has been conducted at least annually, and such review should cover all material controls, including financial, operational and compliance controls, and
- (12) To review the internal audit report of the Company, to appraise the results of the internal audit work, to supervise the implementation of remedial measures relating to major issues and to accept and handle in a timely manner any complaint in respect of major issues concerning internal controls;
- (13) to discuss the internal control system with management to ensure that the management has performed its duty to set up an effective internal control system. This discussion should include the adequacy of resources in the accounting and financial reporting functions, staff qualifications and experience, training programmes and budget.;
- (14) to consider major investigation findings on internal control matters at the request of the management or on its own initiative and management's response to these findings;
- (15) to examine, prior to submission to the Board for consideration, the representations in relation to the internal control system of the Company as contained in the annual report in advance;
- (16) to review the financial and accounting policies and practices of the Company and its subsidiaries;
- (17) to review the letter of explanation issued by the external auditor to the management in connection with the audit, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and the response of the management to such queries;

- (18) to ensure that the Board will provide a timely response to the issues raised in the external auditor's letter of explanation to the management and in the management's proposal;
- (19) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (20) subject to the laws or regulatory requirements, to fully report, within its scope of authority, its actions, decisions and recommendations to the Board and to maintain communication and cooperation with other special committees;
- (21) to review the following arrangements made by the Company: the staff of the Company may raise their concerns about possible improprieties 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 action;
- (22) to establish a whistleblowing policy and system for employees and those who deal with the issuer (e.g. customers and suppliers) to raise concerns, in confidence, with the audit committee about possible improprieties in any matter related to the issuer.;
- (23) to provide its opinion on the due diligence and performance evaluation of the internal audit personnel;
- (24) to listen to the reports on the progress of the audit work given by the person in charge of the audit on a quarterly basis and to evaluate the work carried out by such person and advise the Board ; and
- (25) to handle any other matters authorised by the Board .

**Article 8** The Board shall authorize the audit committee to conduct any investigation within its scope of authority. The audit committee shall have the right to obtain from any staff any information required by it and all staff must accommodate any request raised by the audit committee.

**Article 9** The audit committee shall be accountable to the Board. The opinion, recommendation and reports of the committee shall be submitted to, and determined upon consideration by, the Board.

**Article 10** Where the Board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company shall include in its Corporate Governance Report, which will be incorporated in its annual report as required by the Hong Kong Listing Rules, a statement from the audit committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

**Article 11** The audit committee may request the management to carry out investigations, conduct investigations directly on its own within its scope of authority, or entrust an independent intermediary to investigate, any major issues which it is concerned about.

**Article 12** The Company shall provide the audit committee with sufficient human and material resources in order to enable the committee to perform its duties. The Board shall authorize the audit committee to obtain independent professional advice from an external party at the costs of the Company if necessary.

#### **Chapter 4 Rules of Procedure**

**Article 13** The chairman of the audit committee shall be responsible for convening and presiding over a meeting of the audit committee. If the chairman cannot attend the meeting, he may appoint another member to preside over the meeting

**Article 14** A meeting of the audit committee shall only be held when at least two-thirds of its members are present. Each member shall have one vote. The opinions, recommendations and decisions formed by the meeting shall require the affirmative vote of more than one half of all of its members to be passed. Members present at the meeting shall sign on the opinions, recommendations and decisions adopted at such meeting.

**Article 15** The meetings of the audit committee may be held by way of on-site meetings, video-conference, teleconference, or other telecommunication methods. If an on-site meeting is convened, a vote by a show of hands or by poll may be taken. If a meeting is held by way of telecommunication, a vote may be taken by signing the resolution by facsimile or letter.

**Article 16** The financial controller, person in charge of the audit and external auditor shall attend meetings as a general rule. The convener may invite other relevant personnel and external parties to attend meetings when necessary.

The audit committee shall conduct a meeting with the external auditor at least once every year in the absence of the executive directors of the Company.

**Article 17** The audit committee shall have complete minutes of meetings. The members present at a meeting shall sign the minutes of the meeting. The minutes shall be kept by the secretary to the Board. The method and term of retention shall follow the method and term of retention of the documents of the Board. Draft and final versions of minutes of the meetings should be sent to all members of the audit committee within a reasonable time after the meeting. The drafts shall be used for soliciting comments from the members and the definitive version shall be filed for record.

**Article 18** Opinions, recommendations, decisions made by, and voting results of, the audit committee shall be reported to the Board of the Company in writing.

## Chapter 5 Supplementary Provisions

**Article 19** These Terms of Reference shall take effect as at the date on which they are adopted by the Board.

**Article 20** Any matters which are not fully provided for in these Terms of Reference shall be implemented in accordance with the provisions of the relevant laws and regulations of the PRC and the Articles of Association. If there is any conflict between these Terms of Reference and any laws or regulations promulgated by the PRC in the future, or with the Articles of Association as amended through legal procedures, the provisions of the relevant laws and regulations of the PRC and the Articles of Association shall prevail, and these Terms of Reference shall be amended forthwith and submitted to the Board for consideration and, if thought fit, adoption.

**Article 21** These Terms of Reference, the role of the audit committee, and the explanation of the authority delegated to the audit committee by the Board shall be published in accordance with relevant provisions.

**Article 22** The power of interpretation and amendment of these Rules shall be vested in the Board of the Company.

**Article 23** These Terms of Reference are written in Chinese and English. The English language version is only a translation. If there is any discrepancy between the two versions, the Chinese version shall prevail.