



# The Hong Kong Building and Loan Agency Limited

香港建屋貸款有限公司

*(Incorporated in Hong Kong with limited liability)*

(Stock code: 145)

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

(Updated on 17 November 2015)

### Membership

1. The audit committee (the “**Committee**”) shall be appointed by the board (the “**Board**”) of the directors (the “**Director**”) of The Hong Kong Building and Loan Agency Limited (the “**Company**”) from amongst the non-executive Directors and consist of a majority of (including the Chairman) independent non-executive Directors. At least one of the members shall have appropriate professional qualifications or accounting or related financial management expertise as required by the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
2. A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Committee for a period of 1 year from the date of his ceasing:
  - (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm,whichever is later.
3. The Chairman of the Committee shall be appointed by the Board and must be an independent non-executive Director.

### Frequency and proceedings of meetings

4. The staff responsible for the accounting and financial reporting function, and a representative of the external auditors shall normally attend the meetings. Other Board members shall also have the right of attendance. However, at least twice a year the Committee shall meet with the external auditor without executive Board members present.
5. The company secretary shall be the secretary of the Committee.
6. Meetings shall be held not less than twice a year. The external auditor may request a meeting if they consider necessary.
7. The quorum of meetings shall be two independent non-executive Directors.

## **Duties, powers and functions**

### **8. Relationship with the Company's auditors**

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; and
- (c) to develop and implement policy on engaging an external auditor to supply 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 entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

### **9. Review of financial information of the Company**

- (a) to monitor integrity of financial statements of the Company and its annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee should 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 legal requirements in relation to financial reporting;
- (b) regarding 9(a) above:-
  - (i) members of the Committee should liaise with the Board, senior management and the Committee must meet, at least twice a year, with the Company's auditors; and
  - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it 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 auditors.

10. Oversight of the Company's financial reporting system, risk management and internal control systems
  - (a) to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
  - (b) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
  - (c) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
  - (d) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
  - (e) to review the group's financial and accounting policies and practices;
  - (f) to review the external auditor's management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
  - (g) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
  - (h) to report to the Board on the matters set out in the code provision (in respect of the Committee) pursuant to "Appendix 14 – Corporate Governance Code and Corporate Governance Report" of the Listing Rules; and
  - (i) to consider other topics, as defined by the Board.
11. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
12. The Committee shall review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and shall act as the key representative body for overseeing the Company's relations with the external auditor.
13. In addition, the Committee is authorized by the Board:-
  - (a) to investigate any activity within its terms of reference, and the executive Directors shall ensure that members of the Committee are provided with full and unlimited access to all books and accounts of the group;

- (b) to seek any information it requires from any employee, consultant or adviser of the group, and all employees, consultants and advisers of the group are directed to co-operate with any request made by the Committee;
- (c) to obtain advices from outside legal or other independent professional advisers whose fees and expenses shall be borne by the Company, and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- (d) to provide sufficient resources to perform its duties.

### **Reporting procedures**

- 14. Full minutes of the Committee meetings should be kept by a duly appointed secretary of the meeting (who should normally be the company secretary). Draft and final versions of minutes of the meetings should be sent to all members of the Committee for their comment and records within a reasonable time after the meeting.

### **Terms available**

- 15. The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on The Stock Exchange of Hong Kong Limited's website and the Company's website.

*Note: If there is any inconsistency between the English and Chinese versions of this terms of reference, the English version shall prevail.*