

THE BANK OF EAST ASIA, LIMITED

TERMS OF REFERENCE

OF

THE AUDIT COMMITTEE

1. CONSTITUTION

The Board of Directors resolved on 29th September, 1998 to establish a committee known as the Audit Committee to assist the Board in providing an independent review of the effectiveness of the financial reporting process and internal control system of the Bank Group. The Committee was formed pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). Terms of Reference of the Committee were updated and amended with reference to “Appendix 14 the Code on Corporate Governance Practices” (the “Code”) and “Appendix 23 Corporate Governance Report” of the Listing Rules effective January 2005.

2. MEMBERSHIP

2.1 The Committee members shall be appointed by the Board from amongst the Non-Executive Directors of the Bank and shall consist of not less than three members. The majority of the Committee members must be Independent Non-executive Directors. The Committee must be chaired by an Independent Non-executive Director. A quorum shall be two members.

2.2 The Chairman of the Committee shall be appointed by the Board.

2.3 The Chairman and members are:

Chairman	:	Mr. Winston Lo Yau-lai*
Members	:	Mr. Wong Chung-hin*
		Dr. Allan Wong Chi-yun*
		Mr. Kenneth Lo Chin-ming*
		Mr. William Doo Wai-hoi*
		Mr. Kuok Khoon-ean*
		Mr. Valiant Cheung Kin-piu*

**Independent Non-executive Directors*

3. ATTENDANCE AT MEETINGS

The Group Chief Financial Officer, the Group Chief Auditor and representative(s) of the external auditor shall normally attend meetings. The Committee shall invite any appropriate person to attend the meeting whenever it is necessary. Other Board members shall also have the right of attendance.

4. SECRETARY

The Company Secretary shall act as the secretary of the Committee.

5. FREQUENCY OF MEETINGS

Meetings shall be held not less than twice a year. Ad hoc meeting will also be convened whenever situation warrants. The external auditors may request a meeting if they consider that one is necessary.

6. AUTHORITIES

- 6.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 6.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

7. DUTIES

- 7.1 The scope of the Committee's review shall not be restricted to activities at the "bank" level, but should extend to activities at the "group" level, insofar as they fall within the duties of the Board.
- 7.2 The duties of the Committee shall be:
- (a) to be primarily responsible for making recommendation 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 resignation or dismissal of that auditor;
 - (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences, and ensure co-ordination where more than one audit firm is involved. Procedures to review and monitor the independence of external auditor may include:-
 - (i) consider all relationships between the Bank and the audit firm (including the provision of non-audit services);
 - (ii) seek from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding rotation of audit partners and staff; and

7. DUTIES (CONTINUED)

- (iii) meet with the external auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.

- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

- (d) to monitor integrity of the financial statements, annual report and accounts, and half-year report (including Directors' Report, Chairman's Statement and management discussion and analysis), and to review significant financial reporting judgements contained in them. In this regard, in reviewing the annual report and accounts, and half-year report 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 other legal requirements in relation to financial reporting;

- (e) In regard to (d) above:-
 - (i) members of the Committee must liaise with the Board of Directors, senior management, the Group Chief Financial Officer and the Group Chief Auditor and the Committee must meet, at least once a year, with the external auditor; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Group Chief Financial Officer, Chief Compliance Officer, Group Chief Auditor or external auditor;

7. DUTIES (CONTINUED)

- (f) to review the financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (i) 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 Group, and to review and monitor the effectiveness of the internal audit function;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters set out in the code provisions C.3 of the Code; and
- (n) to consider other topics, as defined by the Board.

8. REPORTING PROCEDURES

- (a) The secretary shall circulate the agenda and the minutes and reports of meetings of the Committee to all members of the Board.
- (b) Semi-annual reporting to the Board

Reports to the Board should cover, as appropriate, the work and findings of the Committee under the following areas:

- Financial and other reporting
- Financial controls, internal control and risk management systems
- Audits
- Other duties and responsibilities

- (c) Corporate Governance Report in the Annual Report

Disclosures should include:

- Its role, function and composition of the Committee members (including names and identifying in particular the Chairman of the Committee);
- The number of the Committee meetings held during the year and record of individual attendance of members, on a named basis, at meetings held during the year;
- A report on the work performed by the Committee during the year in discharging its responsibilities in its review of the half-yearly and annual results and system of internal control, and its other duties set out in the Code; and
- Details of non-compliance with rule 3.21 of the Listing Rules (if any) and an explanation of the remedial steps taken by the Bank to address such non-compliance relating to establishment of the Committee.

9. REMUNERATION

An amount of HK\$100,000 should be paid to the Chairman of the Committee and HK\$60,000 should be paid to each of the other Committee members.

10. FREQUENCY OF REVIEW

These Terms of Reference should be reviewed on an annual basis and as required.