BOC HONG KONG (HOLDINGS) LIMITED

Mandate of the Audit Committee

1. Purpose

1.1 The Audit Committee (the "Committee") is a standing committee of the Board of Directors (the "Board"). The purpose of the Committee is to assist the Board in fulfilling its oversight responsibility for BOC Hong Kong (Holdings) Limited (the "Company"), Bank of China (Hong Kong) Limited (the "Bank") and their subsidiaries (together, the "Group") relating to:

- the integrity of financial statements and the financial reporting process;
- the systems of internal control;
- the performance of the internal audit function and internal auditors;
- the appointment of external auditor and the evaluation of the external auditor's qualifications, independence and performance;
- the periodic review and annual audit of the Group's financial statements;
- compliance with applicable accounting standards and legal and regulatory requirements on financial disclosures; and
- enhancing the corporate governance framework of the Group.

1.2 The function of the Committee is oversight. The Management is responsible for the preparation, presentation and integrity of the financial statements. The external auditor is responsible for planning and carrying out a proper audit of the Group's annual financial statements, for the review of half-yearly financial statements and (if appropriate) for performing agreed-upon procedures of quarterly financial results. Both the Management and the external auditor are ultimately accountable to the Board and the shareholders.

2. Roles and Responsibilities

2.1 Financial reporting

2.1.1 The Committee shall review and monitor the effectiveness of the financial reporting processes implemented by the Management, and encourage the sufficient disclosure of information reasonably required by shareholders to make an investment decision on a fair and timely basis and to comply with applicable laws, regulations and best practices of the market.

2.1.2 The Committee shall review with the Management and the internal and external auditors:

- the appropriateness of the Group's accounting and financial reporting, including complex or unusual transactions, accounting treatment of significant risks and uncertainties and highly judgmental areas;
- significant accounting and financial reporting issues raised by internal and external auditors; and
- any new or significant changes to the Group's existing accounting policies and advise the Board on any significant new policies or significant changes to existing policies.

2.1.3 The Committee shall review with the Management and the internal and external auditors and approve or, if appropriate, recommend for approval by the Board:

- the annual audited financial statements, together with the report of the external auditor thereon;
- the half-yearly financial statements;
- the quarterly financial results;
- all financial information in material public disclosure documents including prospectuses and other offering documents.

2.1.4 In reviewing such financial reports the Committee shall focus particularly on:

- compliance with applicable accounting standards;
- compliance with Hong Kong Stock Exchange listing rules, regulations of the Hong Kong Monetary Authority, and other legal and regulatory requirements;
- any changes in important accounting policies and practices;
- the presentation and impact of significant risks and uncertainties as well as major areas of judgment of the Management that may be material to the statements or disclosure;
- significant adjustments resulting from audit;
- alternative accounting treatments within generally accepted accounting principles;
- disclosure of related party transactions and any unusual items that have occurred during the period under review;
- 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's staff responsible for the accounting and financial reporting function, compliance officer or external auditor;
- completeness and adequacy of disclosures, ensuring that these are consistent

with the information known to Committee members; and

- the going concern assumption.

2.1.5 If the dividend proposal submitted by the Management deviates from the dividend policy approved by the Board, the Committee shall review the dividend proposal and provide its recommendations to the Board.

2.1.6 The Committee shall review with the Management and the internal auditors the controls and processes that are used for the preparation and presentation of the Group's regulatory filings, including reports filed with the Hong Kong Monetary Authority.

2.2 Risk Management and Internal control

2.2.1 The Committee shall review and evaluate whether the Management is setting the appropriate "control culture" to make all employees understand their roles and responsibilities. The function of the Committee is one of oversight. It is the responsibility of the Management to establish a sound and effective risk management and internal control systems.

2.2.2 The Committee shall, with the assistance of the internal auditors, conduct at least annually a review of the effectiveness of the Group's risk management and internal control systems, which should cover all material controls, including financial, operational and compliance controls. The annual review to be conducted by the Committee (taking into account the Board's allocation of responsibility for oversight of all risks other than financial reporting risk to the Risk Committee) shall, in particular, consider:

- the changes since the last annual review in the nature and extent of significant financial reporting risks, and the Group's ability to respond to changes in its business and the external environment;
- the scope and quality of the Management's ongoing monitoring of financial reporting risks and of risk management and internal control systems and compliance processes for accounting and external reporting;
- the effectiveness of the risk management and internal control systems established by the Management to monitor transactions entered into or to be entered into between any member of the Group and any connected person or related party within the meaning or intent of the Listing Rules, the Banking Ordinance or other applicable regulatory requirements;

- the work of the internal audit function and other providers of assurance including reports (both regular and exceptional) produced by the internal auditors, any management letters submitted by the external auditor as well as the Management's responses, and any examination reports issued by regulatory authorities and the Management's responses. The Committee shall also meet with the internal auditors, the external auditor and the Management to discuss findings from their work and the resolution, or otherwise, of the points arising including any difficulties encountered;
- the extent and frequency of communication of monitoring results to the Committee which enables it to build up a cumulative assessment of the state of control in the Group and the effectiveness with which financial reporting risk is being managed;
- the significant control failings or weaknesses identified during the review of the risk management and internal control systems, and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition, and any remedial measures taken to address such control failings or weaknesses; and
- the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting as well as internal audit functions.

2.2.3 Taking into account the Board's allocation of responsibility for oversight of risk management to the Risk Committee, the Committee shall:

- review reports from the HKMA and other regulators regarding risk management matters that may have a significant impact on the Group's financial standing and reputation, and ensure that the matters have been properly addressed; and
- ensure that any significant impact of these issues is reflected in the financial statements.

2.2.4 The Committee shall review whistleblowing arrangements for the Group's employees and other stakeholders who, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action.

2.2.5 The Committee should discuss with the Management the systems of risk

management and internal control and ensure that Management has discharged its duty to have effective risk management and internal control systems including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting as well as internal audit functions, and their training programs and budget.

2.3 Legal and regulatory compliance

2.3.1 The duties of the Committee normally include reviewing the adequacy and effectiveness of the system of monitoring compliance with applicable laws and regulations governing the business of the Group. However, taking into account the Board's allocation of responsibility for oversight of legal and compliance risks to the Risk Committee, the Committee shall:

- review reports from the HKMA and other regulators regarding legal and compliance matters that may have a significant impact on the Group's financial standing and reputation, and ensure that the matters have been properly addressed; and
- ensure that any significant impact of these issues is reflected in the financial statements.

2.4 Internal audit

2.4.1 The Committee shall:

- review and approve, with input from the Management and the General Manager of Group Audit, the responsibilities and structure of the Group Audit and ensure no unjustified restrictions or limitations are made;
- recommend to the Nomination and Remuneration Committee and the Board the appointment, termination, remuneration, annual and long-term performance targets, and results of performance appraisal of the General Manager of Group Audit;
- taking into account recommendations of the General Manager of Group Audit and comments of the Chief Executive, review and approve the appointment and termination of Deputy General Managers (Group Audit); the Committee should be informed of the succession arrangement timely. In case the succession takes place due to the retirement of Deputy General Managers (Group Audit), the Committee should be informed of the arrangement at least 6 to 9 months in advance, and participate in the selection of the proposed candidates. The period for job handover should be no less than three months.

The remuneration (including the annual bonus payment and changes to the remuneration), annual performance targets, and results of performance appraisal of Deputy General Managers (Group Audit) would be proposed by the General Manager of Group Audit and approved by the Chief Executive, with the results thereof submitted to the Audit Committee for notification; and

- review and approve the audit strategy, methodologies and annual audit plan and budget of Group Audit to ensure independence is maintained and sufficient resources are available for it to perform its duties.

2.4.2 The Committee shall annually review the effectiveness of the internal audit function and ensure that it has appropriate standing within the Group.

2.4.3 The Committee shall:

- review the reports submitted by internal audit, together with the Management's response to any identified weaknesses on internal control; and
- receive and review reports submitted by internal audit summarizing the Management's response to matters not yet followed up and the progress of implementation of the same.

2.4.4 The Committee shall meet separately with the General Manager of Group Audit without the Management or executive director(s) present to discuss any matters that the Committee or internal auditors believe shall be discussed privately.

2.5 External audit

2.5.1 The Committee is responsible for the oversight of the external auditor, review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and shall ensure the external auditor's ultimate accountability to the Board, the Committee and the shareholders.

2.5.2 The Committee shall make recommendations to the Board, for it to put to the shareholders for approval in general meeting, in relation to the appointment, reappointment and removal of the external auditor and approve the remuneration and terms of engagement of the external auditor (under special circumstances, where an affiliated entity incorporated outside Hong Kong needs to appoint another audit firm, Group Audit should help to obtain prior approval from the Committee and coordinate for consistent practice with the BOC Group before the actual

appointment). In the event of resignation by the external auditor, the Committee shall enquire the circumstances of the resignation and clarify with the outgoing external auditor whether there is any matter in relation to their work or the circumstances of the resignation which shall be drawn to the attention of the Board and the shareholders.

2.5.3 Before the audit commences, the Committee shall discuss and review with the external auditor the nature, scope and approach of the audit and satisfy itself that the audit plan is risk based and covers all relevant activities over a measurable cycle and that the work of the external auditor and the internal audit is coordinated. The Committee shall also review with the external auditor (and the Management) all matters to be communicated to the Committee under generally accepted accounting principles.

2.5.4 The Committee shall review the results of the audit with the external auditor, internal auditors and the Management, and advise the Board of their findings to ensure timely response and following up in areas including:

- the external auditor's evaluation of the Group's internal accounting controls and any recommendations relating thereto;
- the degree of cooperation the external auditor received from the Management, any problems experienced in conducting the audit and any restrictions imposed by the Management or significant accounting issues on which there was a disagreement with the Management;
- the existence of problems or potential problems related to accounting and/or auditing matters and any accounting errors;
- the external auditor's management letter, the Management's response and subsequent follow-up of any identified weaknesses;
- the appropriateness and quality of all critical accounting policies and practices used by the Group and the selection and adoption of new policies and practices; and
- any alternative treatments of financial information that have been discussed with the Management, the ramifications of their use and the external auditor's suggested treatment, as well as any other material communications with the Management.

2.5.5 The Committee shall recommend to the Board the policy on the engagement of the external auditor to supply non-audit services. In relation to non-audit services, the Committee shall consider:

- whether there are safeguards in place, or whether necessary measurements shall be taken by the Committee or be recommended to the Board for adoption, to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of non-audit services by the external auditor; and
- the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm.

2.5.6 The Committee shall meet with the external auditor, at least annually, in the absence of the Management, to discuss any issues arising from the audit and any other matters the auditor may wish to raise.

2.6 Reporting responsibilities

2.6.1 The Committee shall report to the Board on the matters set out in this Mandate, regularly update the Board about the Committee's activities and consider other topics as defined by the Board, ensure that the Board is aware of matters which may significantly impact the Group's financial condition or business affairs and make appropriate recommendations.

2.6.2 The Committee shall regularly communicate with other Board Committees as appropriate. Taking into account that the Board's allocation of responsibility of oversight of all risks (other than financial reporting risk) to the Risk Committee, the Committee should maintain close dialogue with the Risk Committee and ensure that significant risk management matters and non-compliance issues are thoroughly discussed and addressed. This also ensures that any review of internal control systems conducted by the Committee through Group Audit and that conducted by the Risk Committee through the risk management function of the Group (e.g. Risk Management Department, Legal & Compliance and Operational Risk Management Department, Financial Crime Compliance Department) are properly coordinated and no gaps arise.

2.6.3 The Committee shall review any other reports of the Group relating to the Committee's responsibilities.

2.7 Corporate Governance

2.7.1 The Committee shall introduce to the Group principles of good corporate

governance and monitor application of such principles to the establishment and implementation of important policies and procedures.

2.7.2 The Committee shall be responsible for reviewing and assessing the adequacy of the corporate governance framework of the Group (including the roles and responsibilities of other Board Committees, where appropriate) to ensure financial reporting, risk management and internal control meet governance standards of the Group.

2.7.3 The Committee shall ensure that the Board and Board Committees perform self-assessments of their performance and review their mandates, with such self-assessment and reviews taking place at least annually.

3. Composition

3.1 Membership

3.1.1 The Committee members are non-executive directors. If requested to render advice by the Board, Advisor(s) of the Board (if any) could act as the advisor(s) to the Committee. The majority of the members shall also be independent, including the Chairman of the Committee.

3.1.2 Members of the Committee shall possess appropriate authority and necessary skills and experience and be prepared to determine and advise on complex financial, operating and other issues. At least one member being an independent non-executive director shall possess appropriate professional qualifications or accounting or related financial management expertise. [1]

3.1.3 A quorum shall be three members of whom at least two are independent non-executive directors.

3.1.4 A former partner of the Group's existing auditing firm should be prohibited from acting as a member of the Group's Audit Committee for a period of two years from the date of his/her ceasing:

[1] In particular, this means that the person, through experience as a public accountant or external auditor, chief financial officer, financial controller or principal accounting officer of a public company, or through performance of similar functions, possesses experience with internal control and in preparing or auditing comparable financial statements, or experience in reviewing and analyzing audited financial statements of public companies.

(a) to be a partner of the firm; or

(b) to have any financial interest in the firm;

whichever is later.

3.1.5 Members of the Committee shall:

- regularly attend the meetings of the Committee and actively express their opinions on the matters discussed during the meeting; and
- keep abreast of the roles and responsibilities of the Committee as well as their responsibilities as members of the Committee and of the conduct, business activities and development of the Group.

3.2 Other attendees

3.2.1 The General Manager of Group Audit and the Chief Financial Officer are normally expected to attend meetings of the Committee to render assistance. If required, other members of the Management (including the Chief Executive, relevant Deputy Chief Executive(s) and Officers) and representatives of the Group Audit and external auditor are also expected to attend some or all or parts of the Committee meetings. All these "other attendees" are expected to provide open, candid and comprehensive input to the Committee as requested.

3.2.2 The appointment of the secretary/secretaries to the Committee shall be subject to the approval of the Committee, and submitted to the Board for notification thereafter.

3.3 Roles

3.3.1 The Chairman of the Committee shall be appointed by the Board from amongst the independent non-executive directors. The Chairman of the Board shall not act as the Chairman of the Committee. The duties and responsibilities of the Chairman of the Committee include but are not limited to:

- providing leadership for the Committee and ensuring that the Committee works effectively and discharges its responsibilities;
- ensuring that all key and appropriate issues are discussed by the Committee in a timely manner, and that clear and explicit conclusions are achieved for every agenda item discussed in the meetings;
- being primarily responsible for drawing up and approving the agenda for each Committee meeting taking into account, where appropriate, any matters proposed by the other Committee members and the Management for inclusion in the agenda so as to ensure that, other than exceptional circumstances, all

Committee members and the Management are given an opportunity to include matters in the agenda for a Committee meeting. The Chairman may delegate such responsibility to a designated member or the Committee Secretary;

- ensuring that all Committee members are properly briefed on issues arising at Committee meetings, and that Committee members receive adequate information, which must be timely, complete and reliable;
- encouraging all Committee members to make a full and active contribution to the Committee's affairs and take the lead to ensure that the Committee acts in the best interests of the Group; and
- attending in person the annual general meeting and answering questions at the meeting, or authorising another Committee member who attends the annual general meeting to answer questions in the capacity of the Chairman of the Committee.

3.3.2 The duties and responsibilities of the Committee Secretary include but are not limited to:

- providing technical advice and expertise to support the work of the Committee, the Chairman of the Committee and other Committee members;
- organizing, administering and coordinating the operation of the Committee;
- arranging Committee meetings as coordinated by the Board Secretary;
- reviewing the material to be presented to the Committee, ensuring the Management submits reports and documents to the Committee appropriately;
- reporting on the work of the Committee to the Board under the authorization of the Chairman of the Committee;
- requesting the Management to provide relevant data and material to assist the Committee members to understand the relevant information;
- facilitating induction for new Committee members and assisting with professional development as required;
- coordinating the work of the Committee with similar functions in the BOC Group; and
- other duties and responsibilities entrusted by the Committee.

3.4 Independence Standards

3.4.1 The Committee members who are independent non-executive directors shall observe the policy on independence of directors approved by the Board.

3.5 Nomination, Terms, Remuneration and Training

3.5.1 The Nomination and Remuneration Committee is responsible for nominating Committee members from amongst the non-executive directors of the Board for approval by the Board. The terms of appointment of the Committee members shall be consistent with those of the relevant directorship, and shall be subject to reappointment by the Board when the terms expire.

3.5.2 The Committee shall communicate adequately with the Nomination and Remuneration Committee before the latter makes recommendations to the Board on the selection criteria, nominated candidates and terms of appointment of the Committee members to ensure that they serve the purpose of the Committee.

3.5.3 The remuneration of the Committee members shall be approved by the Board based on the recommendations of the Nomination and Remuneration Committee if no authorization is needed from or such authorization has been granted by the shareholders.

3.5.4 The Committee shall communicate adequately with the Nomination and Remuneration Committee when the latter reviews and approves induction/training procedures for the Board Committee members, and ensure that the procedures are practical for the Committee. The Committee Secretary is responsible for the implementation of induction / training procedures for the Committee with the coordination of the Board Secretary.

3.5.5 Every new Committee member shall receive a comprehensive, formal and tailored induction on appointment; and all Committee members shall participate in a program of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Committee remains informed and relevant. The Group shall fund such induction/training programmes.

3.6 Frequency of meetings

3.6.1 The Committee shall meet at least 4 times a year (including twice a year with the external auditor), with meetings timed to align with the Group's financial reporting cycle. In addition, there shall be open dialogue between the Group Audit and the Committee; between the external auditor and the Committee; and between the Management and the Committee, between scheduled Committee meetings on an as-needed basis. The General Manager of Group Audit and the external auditor may

request a meeting if they consider that one is necessary. The Committee may request for additional meetings with the Management or other advisors between scheduled meetings if they consider it necessary.

4. Authority

4.1 The Committee is authorized to seek adequate administrative support from the Management and have separate and independent access to the Group's senior management.

4.2 The Management is expected to support the work of the Committee with the utmost good faith and to ensure that the Committee is provided with all the information relating to the operation, business and conditions of the Group necessary and appropriate for the Committee to discharge its responsibilities on a fair and timely basis. The Committee is authorized to require any member of the Management and any employee of the Group to respond to queries raised by any member of the Committee as promptly and fully as possible. Information provided to the Committee shall be accurate and complete and be in such form and of such quality as will enable the Committee to make an informed decision.

4.3 The Committee is authorized to invite any person it thinks fit to attend the meetings of the Committee.

4.4 The Committee shall be authorized, on its own initiative or at the request of the Board, to investigate major risk management and internal control matters and review the Group's operating, financial and accounting policies and practices, consider any findings and the Management's response and advise the Board of the results of such investigation or review and its recommendations.

4.5 Members of the Committee are authorized, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Group's expense.

4.6 The Committee is authorized to have access to the advice and services of the Committee Secretary and the Board Secretary with a view to ensuring that Committee procedures, and all applicable rules and regulations, are followed.

5. Consulting or special sub-committees

5.1 As necessary and appropriate, the Committee may form and dismiss consulting or special sub-committees after approval by the Board.

5.2 The Committee is responsible for the management of the special sub-committees and delegating sufficient power and authority to them for ensuring effective and efficient operation.

6. Annual performance appraisal

6.1 The Committee shall, with the assistance of the Nomination and Remuneration Committee, monitor and review its composition, evaluate the balance of skills, knowledge and experience on the Committee and monitor and review its processes and effectiveness on at least an annual basis. The result shall be reported to the Board.

6.2 The Committee shall also monitor and review the continuing adequacy of its Mandate from time to time, and report to the Board the main findings.

7. Effective date and amendments

7.1 This Mandate shall come into effect on the date when it is approved by the Board.

7.2 Any amendments to this Mandate shall be recommended by the Committee. The amendments shall come into effect on the date when it is approved by the Board or submitted to the Board for notification, as the case may be.