



AVIC Joy Holdings (HK) Limited

幸福控股(香港)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 260)

(the “Company”)

AUDIT COMMITTEE

TERMS OF REFERENCE

1. Membership

- 1.1 The audit committee (the “**Committee**”) shall be appointed by the board of directors of the Company (the “**Board**”) and shall be made up of at least three members (the “**Members**”).
- 1.2 All Members shall be non-executive directors. The majority of the Members shall be independent non-executive directors (“**INEDs**”) and at least one of whom shall have appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
- 1.3 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 2 years 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.
- 1.4 Only Members of the Committee have the right to attend Committee meetings. Other individuals such as the chairman of the Board, the chief financial officer, the head of internal audit, other directors and representatives from the finance function, may be invited to attend all or part of any meeting as and when appropriate.
- 1.5 The external auditors will be invited to attend meetings of the Committee on a regular basis.

1.6 The chairman of the Committee (the “**Committee Chairman**”) shall be appointed by the Board and must be an INED. In the absence of the Committee Chairman and/or an appointed deputy, the remaining Members present shall elect one of the Members to chair the meeting.

2. Secretary

2.1 The company secretary of the Company or his/her nominee shall act as the secretary of the Committee.

2.2 The Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Committee.

3. Quorum, Attendance at Meetings and Resolutions

3.1 The quorum necessary for the transaction of business shall be two Members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

3.2 Members may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.

3.3 Resolutions of the Committee at any meetings shall be passed by a majority of votes of the Members present.

3.4 A resolution in writing signed by all the Members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held and may consist of several documents in like form and of the same content each signed by one or more of the members of the Committee.

4. Frequency of Meetings

The Committee shall meet at least two times each year. The external auditors, the Board or any Member of the Committee may request a meeting if they consider that one is necessary. Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its Members or at the request of external auditors or by order of the Board if they consider it necessary.

5. Minutes of Meetings

5.1 The secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

- 5.2 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 5.3 Full minutes shall be prepared and kept by the secretary of the Committee. Draft and final versions of minutes of the meetings shall be sent to all Committee Members for their comment and records within a reasonable time after the meeting. Such minutes shall be open for directors' inspection.

6. Annual General Meeting

The Committee Chairman should, as far as practicable, attend the annual general meeting of the Company and make himself available to respond to any shareholder questions on the Committee's activities.

7. Responsibility, Powers and Discretion

The responsibility of the Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting and risk management and internal control systems. The Committee shall have the following responsibilities, powers and discretion:

Relationship with the Company's External Auditors

- 7.1 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;
- 7.2 to review and monitor the external auditor's independence and objectivity;
- 7.3 to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 7.4 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;
- 7.5 to report to the Board, identifying and making recommendations on any matters where action or improvement is needed; and
- 7.6 to act as the key representative body for overseeing the Company's relations with the external auditors.

Review of the Company's financial information

7.7 to monitor integrity of the Company's financial statements and the annual report and accounts, half-yearly report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee shall 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;

7.8 Regarding 7.7 above:—

- (i) the Committee must meet, at least twice a year, with the Company's external 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 person occupying the same position), or auditors;

Oversight of the Company's financial reporting system, risk management and internal control systems

7.9 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;

7.10 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;

- 7.11 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;
- 7.12 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;
- 7.13 to review the Group's financial and accounting policies and practices;
- 7.14 to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 7.15 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 7.16 to report to the Board on all matters in the terms of reference; and
- 7.17 to consider other topics, as defined by the Board;

Employees' Concerns

- 7.18 to review arrangements that the employees of the Company can use, in confidence and/or anonymous by, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up action.

8. Reporting Responsibilities

- 8.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 8.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

9. Other Matters

The Committee shall:

- 9.1 be provided with sufficient resources to perform its duties, including access to the company secretary of the Company for assistance as required;
- 9.2 be provided with appropriate and timely training, both in the form of an induction programme for new Members and on an ongoing basis for all Members;
- 9.3 give due consideration to all applicable laws and regulations, including relevant corporate governance codes and the rules of the Hong Kong Stock Exchange as appropriate; and
- 9.4 oversee any investigation of activities which are within its terms of reference and act as a tribunal in arriving at its findings and conclusion, which shall be reported to the Board.

10. Authority

The Committee is authorized by the Board:

- 10.1 to investigate any activity within its terms of reference;
- 10.2 to seek any information it requires from any employee of the Group in order to perform its duties and all employees will be directed to co-operate with any request made by the Committee; and
- 10.3 to obtain, at the Company's expense, outside legal or other independent professional advice and to secure the services of outsiders with relevant experience and expertise and their attendance at the meetings of the Committee if it considers this necessary.

Revised on 31 December 2018

In the event of any inconsistency between the Chinese version and the English version of these terms of reference, the English version shall prevail.