

**AVIC International Holding (HK) Limited**  
**中國航空工業國際控股(香港)有限公司**  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 232)**  
**(the “Company”)**

**TERMS OF REFERENCE  
OF  
AUDIT COMMITTEE**

**1. Membership**

- 1.1 The Audit Committee (the “Committee”) shall be appointed by the board (the “Board”) of directors (the “Directors”) of the Company from amongst the non-executive Directors and comprise a minimum of three members (the “Members”).
- 1.2 The majority of the Members must be independent non-executive Directors (“INED”) and at least one INED with 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 The chairman of the Committee shall be appointed by the Board and must be an INED.

**2. Meetings**

- 2.1 The Committee shall meet at least twice a year. The Company’s external auditor may request a meeting if they consider it necessary.
- 2.2 The chairman of the Committee may convene additional meetings at his discretion.
- 2.3 The quorum of a meeting shall be two Members.
- 2.4 Proceedings of meetings of the Committee shall be governed by the provisions of the Bye-laws of the Company.
- 2.5 The external auditor, senior management and the secretary of the Company shall normally attend meetings. Other Board members shall also have the right of attendance.
- 2.6 Only Members of the Committee are entitled to vote at the meetings.
- 2.7 The secretary of the Company shall be the secretary of the Committee.
- 2.8 The Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Committee.

- 2.9 The Committee shall meet with the external auditor, at least once a year, without the management of the Company or executive Directors, except by invitation of the Committee, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.
- 2.10 Full minutes shall be kept by the secretary of the Committee. Draft and final versions of minutes of the meetings shall be sent to all Members for their comment and records, within a reasonable time after the meeting.

### **3. Authority**

- 3.1 The Committee is granted the authority to investigate any activity of the Company within its terms of reference and all employees of the Company are directed to cooperate with the Committee.
- 3.2 The Committee is authorized by the Board, subject to prior discussions concerning likely costs, 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.
- 3.3 The Committee shall be provided with sufficient resources to discharge its duties.

### **4. Responsibility, duties, powers and functions**

The Committee shall have the following responsibilities, duties, powers and functions:

- 4.1 to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the risk management and internal control systems;

#### ***Relationship with the Company's external auditor***

- 4.2 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;
- 4.3 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditor the nature and scope of audit and reporting obligations before the audit commences;
- 4.4 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;
- 4.5 to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

### ***Review of the Company's financial information***

- 4.6 to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly report (if applicable), 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:
- (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from the audit;
  - (d) the going concern assumptions and any qualifications;
  - (e) compliance with accounting standards; and
  - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- 4.7 regarding (4.6) above:
- (a) Members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's external auditors; and
  - (b) 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 external auditors;

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

- 4.8 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;
- 4.9 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;
- 4.10 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;

- 4.11 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;
- 4.12 to review the Company and its subsidiaries' financial and accounting policies and practices;
- 4.13 to review the external auditor's management letter, any material queries raised by the external auditor to management about the accounting records, financial accounts or systems of control and management's response;
- 4.14 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 4.15 to 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;
- 4.16 to act as the key representative body for overseeing the Company's relations with the external auditor;
- 4.17 to report to the Board on the matters in this terms of reference; and
- 4.18 to consider other topics, as requested by the Board.

## **5. Annual General Meeting**

- 5.1 The Chairman of the Committee or in his absence, another Member of the Committee, shall attend the Company's annual general meeting and be prepared to respond to shareholders' questions on the Committee's activities and their responsibilities.
- 5.2 The Company's management should ensure the external auditor attend the Company's annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

## **6. Reporting Procedures**

- 6.1 The Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report to the Board on the findings and recommendations of the Committee.