



CHINA ENGIN E INTERNATIONAL (HOLDINGS) LIMITED

中國航天萬源國際(集團)有限公司*

(在開曼群島註冊成立之有限公司)

(股份代號: 1185)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

1. Constitution

The Directors of the Company have established a Committee of the Board known as the Audit Committee pursuant to Article 128 of the Articles of Association of the Company.

2. Membership

2.1 The Audit Committee is composed of a minimum of three Non-Executive Directors, a majority of whom shall be Independent Non-Executive Directors.

2.2 At least one of the Independent Non-Executive Directors must have appropriate professional qualifications or accounting or related financial management expertise, as required by the Listing Rules.

2.3 Members of the Audit Committee may only be appointed or removed by the Board. The Board may from time to time vary the composition of the Committee as may be required by the Listing Rules.

2.4 The Chairman of the Audit Committee shall be appointed or removed by the Board and must be an Independent Non-Executive Director.

2.5 A former partner of the Company's existing auditing firm is prohibited from acting as a member of the Company's Audit Committee for a period of one year commencing on 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 the later.

3. Quorum

Unless otherwise agreed by all the members of the Audit Committee, two members of the Audit Committee shall be a quorum.

4. Frequency of meetings

The Audit Committee shall meet not less than twice a year.

5. Authority

- (a) The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate upon request made by them. The Audit Committee is authorised to obtain outside legal or other independent professional advice as necessary to assist the Audit Committee.
- (b) The Audit Committee is authorised to inspect all accounts, books and records of the Company and the Audit Committee shall have the right to require the management of the Company to furnish all information requested by the Committee as may be required for the purposes of performing its duties.
- (c) The Audit Committee will be provided with sufficient resources to perform its duties.

6. Attendance

As necessary or desirable, the Chairman may request that members of management, the head of internal audit and representatives of the external auditor be present at meetings of the Audit Committee.

7. Duties and powers

The Audit Committee is established with the following duties and powers:

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 Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on 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 Audit Committee should report to the board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

- (d) to monitor integrity of the Company's financial statements and annual report and accounts, half-year 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 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;

(e) Regarding (d) above:-

- (i) 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 auditors; and
- (ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports 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;

Oversight of the Company's financial reporting system and internal control procedures

- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. 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;
- (h) to consider major investigations findings on internal control matters as delegated by the board or on its own initiative and management's response to these findings;
- (i) 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;
- (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 about 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 in this code provision; and
- (n) to consider other topics, as defined by the Board;
- (o) 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 Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (q) The audit committee should establish a whistleblowing policy and system for employees and those who deal with the issuer (e.g. customers and suppliers) to raise concerns, in confidence, with the audit committee about possible improprieties in any matter related to the issuer.

8. Minutes

Full minutes of Audit Committee meetings are to be kept by the secretary of the meeting (who will normally be the Company Secretary). Draft and final versions of minutes of the Audit Committee meeting are required to be sent to all members of the Audit Committee for their comments and record within a reasonable time after the meeting.

(Updated in March 2012)

** For identification purpose only*