



中國航天國際控股有限公司
CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock code: 31)

**Audit Committee
Terms of Reference**

Establishment

The Committee is established pursuant to a resolution passed by the Board of Directors of China Aerospace International Holdings Limited (“the Company”) on 23 May 2000.

Membership

Members of the Committee shall be amongst the Non-Executive Directors of the Company and shall consist of not less than three members, of which majority shall be Independent Non-Executive Director.

- Quorum : any two committee members
Chairman : shall be appointed by the Board and shall be an Independent Non-Executive Director
Secretary : being the Company Secretary

Meetings and proceedings of the Audit Committee shall be regulated under the procedure of board meetings as stipulated in the Articles of Association of the Company.

Meeting

1. Meetings shall be held at least twice annually. Other meetings may be held according to the necessity of the Audit Committee or on request by the external auditors.
2. Meetings may be held by ways of physical attendance, telephone conference, video conference etc. However, mutual and direct communications during the meetings shall be ensured.
3. Resolutions put forward to the meeting shall be passed by majority votes of the attending Committee members.
4. Written resolutions being signed by all members of the Audit Committee shall be deemed to be as valid and effective as the same as being passed in a physical meeting.
5. According to necessity, the Chairman of the Audit Committee may request the attendance of the management, person in charge of internal audit and representative from external auditor to meetings of the Audit Committee, or invite the attendance of external professional with relevant experience and expertise.

6. At least once a year, the Committee shall meet with external auditors without the presence of Executive Directors.

Authority

1. The authority of the Committee is authorized by the Board. Therefore, unless constrained by laws or rules and regulations, the Committee shall report its decisions or advices to the Board. Being authorized by the Board, the Committee may consult independent professional opinion if considers necessary.
2. The Company shall ensure the Committee with the provision of adequate resources. The Board also authorizes the Committee to seek legal or other independent professional opinions, if necessary, at the cost of the Company.

Duties

1. Appointment of auditor and monitoring responsibility
 - 1.1 To act as the key representative body between the Company and external auditor, for overseeing the company's relations with the external auditor, making recommendations to the Board on the appointment, re-appointment 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;
 - 1.2 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;
 - 1.3 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. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
2. Review of financial information of the Company and its subsidiaries
 - 2.1 to monitor integrity of the Company and its subsidiaries' 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 this regard, 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 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;
 - 2.2 In regard to 2.1 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 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 auditors;
- 3. Oversight of the Company and its subsidiaries' financial reporting system, risk management and internal control systems
 - 3.1 to review the Company and its subsidiaries' financial controls, risk management and internal control systems;
 - 3.2 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 and its subsidiaries' accounting and financial reporting function;
 - 3.3 to review arrangements employees of the Company and its subsidiaries' 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;
 - 3.4 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;
 - 3.5 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 its subsidiaries', and to review and monitor its effectiveness;
 - 3.6 to review the Company and its subsidiaries' financial and accounting policies and practices;
 - 3.7 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;
 - 3.8 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
 - 3.9 to report to the Board on the matters set out in this Terms of Reference; and
 - 3.10 to consider other topics as defined by the Board.

Reporting Responsibility

1. The Chairman or any specified member of the Audit Committee shall report to the Board of what have been discussed after each Committee meeting.
2. The Chairman or specified member of the Audit Committee has the responsibility of attending each general meeting and answer any questions relating to the Committee matter.

Minutes of the meeting

1. The Company Secretary shall circulate minutes of meeting approved by the Committee to all members of the Board.
2. The Company Secretary shall keep all minutes of the meetings.