

## **Hong Kong Aircraft Engineering Company Limited**

### **Audit Committee - Terms of Reference**

*(Amended and restated with effect from 1st January 2009)*

#### **Membership**

1. The Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not less than three members, a majority of whom should be independent. A quorum shall be two members.
2. The Chairman of the Committee shall be appointed by the Board and should be an independent director.
3. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the 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.

#### **Attendance at meetings**

4. The Finance Director, the Group Internal Audit Manager, and a representative of the external auditors shall normally attend meetings. However, at least once a year the Committee shall meet with the external auditor without executive Board members present. Others may be invited to attend.
5. The Company Secretary or Deputy Secretary shall be the secretary of the Committee and shall keep full minutes of Committee meetings.

#### **Frequency of meetings**

6. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

#### **Authority**

7. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
8. The Committee is authorised by the Board 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.

## **Duties**

9. The duties of the Committee shall be:

- (a) to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to 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;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard.
- (c) to discuss with the external auditor before the audit commences the nature and scope of the audit and reporting obligations and ensure co-ordination where more than one audit firm is involved;
- (d) to develop and implement policy on the engagement of an external auditor to supply non-audit services and to report to the Board, identifying any matters in respect of which the Committee considers that action or improvement is needed and making recommendations as to the steps to be taken;
- (e) to monitor integrity of the interim and annual financial statements and annual and interim report and accounts and to review significant financial reporting judgments contained in them before submission to the Board, focusing particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from the audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with stock exchange and legal requirements in relation to financial reporting.
- (f) In regard to (e) above, to consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give due consideration to any matters that have been raised by the Finance Director, Company Secretary or auditors;
- (g) to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);

- (h) to review the external auditors management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response, and to ensure that the Board provide a timely response to the issues raised;
- (i) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (j) to review the Company's financial controls, internal control and risk management systems;
- (k) to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of the resources, qualifications and experience of the staff of the Company's accounting and financial reporting function, and their training programmes and budget;
- (l) to monitor and review the effectiveness of the internal audit function, consider the major findings of internal investigations and management's response, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and is free from management or other restrictions;
- (m) to review the group's financial and accounting policies and practices;
- (n) to report to the Board on the matters raised in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules;
- (o) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial report, internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action; and
- (p) to consider other topics, as defined by the Board.

### **Reporting procedures**

10. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.
11. The secretary shall circulate the minutes of meetings and reports of the Committee to all members of the Board within a reasonable time.